

sij group

ANNUAL REPORT 2012



slovenian steel

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Ljubljana, 15 March 2013



sij group

INTRODUCTION

INTRODUCTION

In addition to the controlling company, SIJ Group consists of another 22 companies of which SIJ, d. d. directly controls 13 and 9 indirectly through its subsidiaries.

WHO WE ARE

SIJ Group has a longstanding, nearly 400-year-long tradition of steel production in the towns of Jesenice and Ravne na Koroškem.

Throughout the years of development and growth, we have come a long way from the production of iron to the manufacture of high quality steels intended for various fields of application. Our products are built on our experience and know-how.

We have become an extremely important part of the retail distribution chain in the field of stainless steel quarto plates. In the past three years we have been one of the top three suppliers of these to the European market.

We are also renowned as a manufacturer and seller of tools and specialized products in the long steel program, where our strongest feature is the quality, and as a professional and flexible supplier.

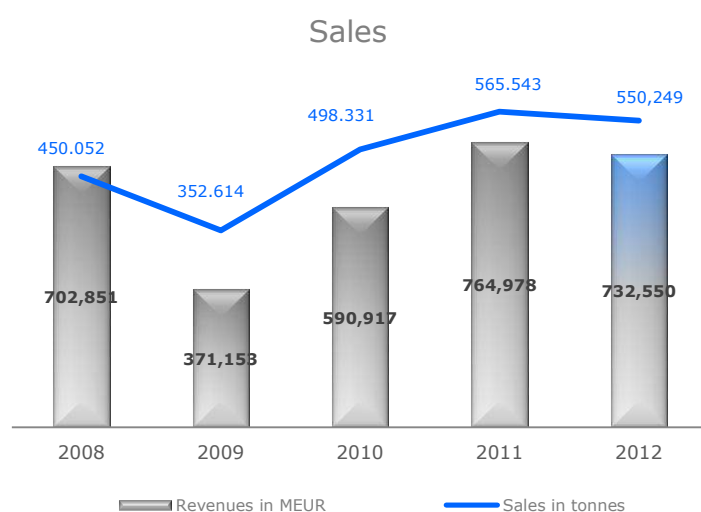
Apart from steel, our Group also manufactures industrial knives for metal, wood, paper, recycling and plastics. After the extensive market segmentation in Europe we have remained the only manufacturer providing such a wide spectrum of industrial knives.

Another important program is the production of welding materials (from electrodes to welding wires) which was upgraded last year by the addition of coated and high-alloy welding wires, where we joined forces with the supplier of to develop new technology in the supplier's production line.

We are also a player in the car industry, with our programs and the production of dynamo sheet metal, drawn wires and other products.

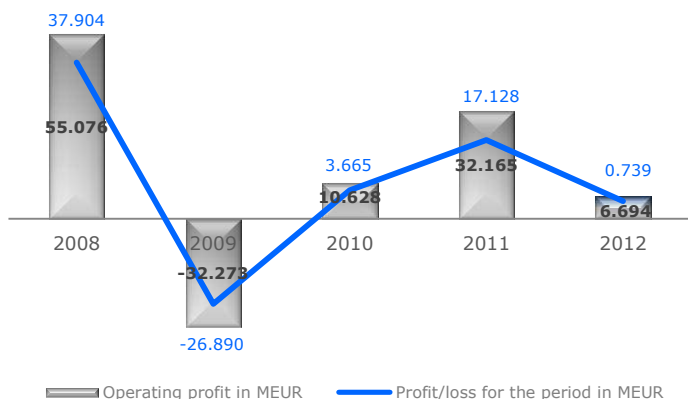
SIJ GROUP – KEY FIGURES

		2008	2009	2010	2011	2012	12/11
Sales ¹	T	450,052	352,614	498,331	565,543	550,249	97
Revenues	EUR	702,851,130	371,152,894	590,916,742	764,977,836	732,549,967	96
Operating profit (EBIT)	EUR	55,075,956	-32,273,194	10,627,772	32,164,550	6,694,392	21
EBIT margin	%	7.84	-8.70	1.80	4.20	0.91	22
Amortization/depreciation	EUR	20,129,678	24,307,596	29,891,453	32,029,018	34,625,552	108
EBITDA	EUR	75,205,634	-7,965,598	40,519,225	64,193,568	41,319,944	64
EBITDA margin	%	10.70	-2.15	6.86	8.39	5.64	67
Profit/Loss before tax	EUR	48,024,713	-34,054,520	4,442,527	21,531,344	-2,099,780	-
Net profit/Loss for the year	EUR	37,904,408	-26,890,145	3,665,277	17,127,530	739,449	4
Return on sales (ROS)	%	5.39	-7.25	0.62	2.24	0.10	5
Assets	EUR	631,717,862	624,115,185	739,754,186	761,932,114	763,574,012	100
Return on Assets (ROA)	%	6.39	-4.28	0.54	2.28	0.10	4
Equity	EUR	335,551,385	308,702,836	314,276,543	331,297,201	328,003,560	99
Return on Equity (ROE)	%	11.98	-8.35	1.18	5.31	0.22	4
Equity ratio	%	53.12	49.46	42.48	43.48	42.96	99
Added value per employee	EUR	44,807	19,256	37,539	47,905	41,549	87
Average number of employees		3,490	3,345	3,321	3,321	3,247	98



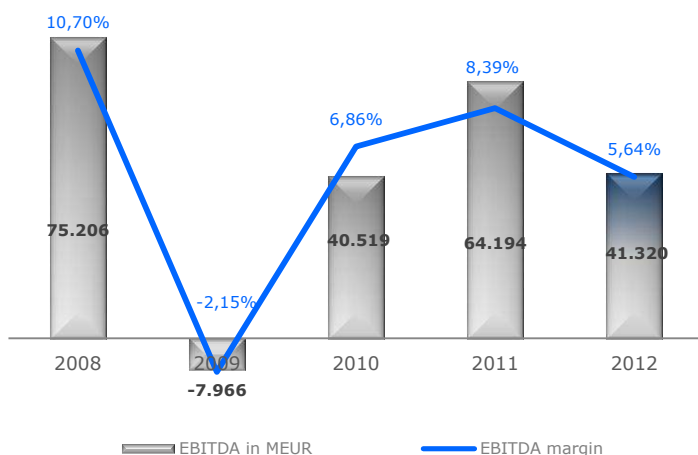
¹ Including the sales of steel scrap

EBIT and Profit/Loss for the Period



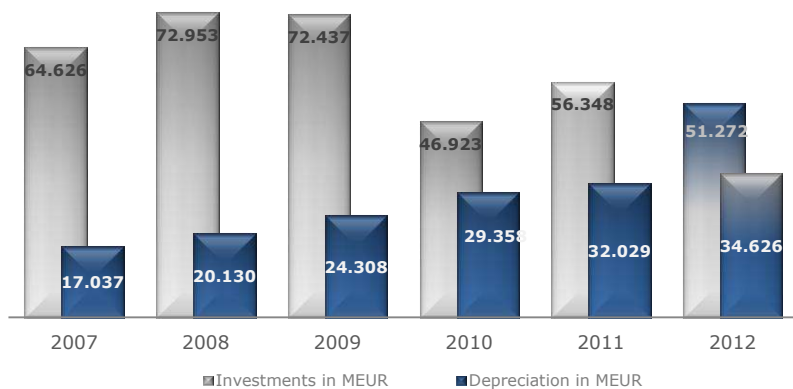
4.2%
lower
sales
value

EBITDA and EBITDA Margin



2.8 pp
lower
EBITDA
margin

Coverage of investments with depreciation



51.3 MEUR
investments

IMPORTANT ACHIEVEMENTS IN 2012

Agreement between Metal Ravne and Eles signed, December 2011 and January 2012

In this agreement, signed at the end of the previous year, both partners undertook to make, as soon as possible, an investment in the connecting overhead power lines and 220kV switching substation, thus providing Metal Ravne with an adequate electricity supply for the connection of a high-performance electro slag remelting plant (ESR III).

Successful conclusion of phase 1 of the installation of the New Plate Mill in Acroni, January 2012

After a production shutdown in December and the decommissioning of the old machinery, all the preparation tasks for the installation of the New Plate Mill in the Hot Rolling Mill were completed.

New CNC milling and drilling machine in Ravne Knives, January 2012

By investing in a new CNC (Computer Numerical Control) milling and drilling machine, Ravne Knives have improved their range of metal cutting knives.

Slag – Acroni's new by-product, February 2012

Slag is produced as a by-product of the processing procedures at Acroni, so in order to follow our environmental protection strategy with regard to the recycling of waste; we joined forces with Harsco Minerali, a company with many years of experience in slag processing. Slag is now no longer useless waste but a by-product suitable for further processing, which is then used in road construction.

Metal Ravne once again among the best employers, March 2012

The employees and the operators of Metal Ravne seem to be connected by a "golden thread", since this was the fifth year in a row that we were among the 101 best employers of Slovenia, a list drawn up within the project Zlata nit (Golden Thread). This year we achieved the highest score so far.

Record million tonnes on "Katarina Velika" in Acroni, March 2012

In March, the one millionth tonne of steel was cast on the machine for the continuous casting of steel, also known to Acroni employees as "Katarina Velika" or "Catherine the Great", during the casting of charge No. 279297.

Improved warehouse for steel quarto plates in Acroni, March 2012

In line with the increase in the production and sales of Acroni's flagship program, stainless steel quarto plates, Acroni has improved its warehouse for steel quarto plates, thus providing larger storage capacity and faster shipment.

Opening of new ESR III in Metal Ravne, May 2012

Together with the Prime Minister at the time, Janez Janša, an investment worth EUR 15.6 million was made in the new electroslag remelting facility ESR III.

SIJ Group has the best Purchasing Manager, May 2012

The Slovenian Purchasing Association and the company Planet GV named Mrs. Marjana Drolc, the Purchasing Director of SIJ (Slovenian Steel Group) Group, the best Slovenian Purchasing Manager.

New centre for machining metals in SUZ, June 2012

By setting up a new centre for machining metals, SUZ has indicated a new direction for the company's development, i.e. towards the manufacture of more demanding products with a high added value.

New permanent exhibition Mati fabrika – Železarna Ravne, June 2012

The Carinthian Regional Museum of the town of Ravne na Koroškem, the European Capital of Steel Culture, opened a new permanent exhibition called Mati fabrika – Železarna Ravne (*the Mother Factory – Ravne Ironworks*).

Initiation of the Update of the Group's IT System, June 2012

SIJ Group and Oracle have been thoroughly and comprehensively updating the IT system of the Group's companies. The contract for the implementation of the 19-month project worth EUR 5.6 million was signed in June.

Outstanding achievement awards for the best employees on the Day of Metallurgists, July 2012

On the day honouring the profession of metallurgists, celebrated in Russia on 15 July this year, SIJ Group management awarded our employees with the greatest achievements, on behalf of our Russian owner.

Purchase of the Serbian company Metal – Eko Sistem, August 2012

SIJ Group purchased, in accordance with our strategy, a 70% share in a Serbian company active in the field of collecting and recycling scrap steel, Metal – Eko Sistem, via our subsidiary Odpad Pivka.

Metal Ravne's 10th market conference, September 2012

At this special anniversary conference 18 representatives of Metal Ravne from over 15 countries presented the conditions on their respective markets, and reviewed, together with the Metal Ravne management, sales and purchasing trends as well as their sales plans for the next year.

Silver Awards for Innovation at Acroni and Metal Ravne, September 2012

At the 10th Innovation Day, the Slovenian Chamber of Commerce gave national awards to the most creative individuals and their companies. We are proud of our Silver Award winning innovators from Acroni and Metal Ravne.

Restoration of the SIJ Group administrative building begins, October 2012

During the first few days of October we began the restoration of the SIJ Group – Slovenian Steel Group administrative building at Gerbičeva 98 in Ljubljana.

Phase 2 of the installation of the New Plate Mill, December 2012

This year finished one of their most demanding installations of the last few years, namely the installation of the new quarto plates rolling mill.

LETTER FROM THE PRESIDENT OF THE BOARD OF DIRECTORS

Dear Shareholders, Employees and Partners,

Back in 2010 it seemed that Europe was about to overcome the great recession by fixing the financial market crisis, but it is now clear that these measures were insufficient to successfully restore economic growth. Notwithstanding the occurrence of shorter or longer periods of market revival, several years will pass before the EU completely surmounts the current economic difficulties and achieves a constant economic growth and a decrease in unemployment.

All this is further influenced by the constant pressures of European (and local) energy and environmental policies, and also by the unstable conditions for conducting business in Slovenia.

There is a significant surplus of production capacity on the steel market, which results in customers exerting a great deal of pressure on sales prices, and while purchasing prices remain unchanged (or speculative in some cases), the steel business is heading towards red figures.

Managing such a large group under these conditions is quite a challenge, thus decision-making sometimes requires a great deal of courage and optimism.

We started adapting our business to the changed market and other business conditions at the very first signs of the financial crisis towards the end of 2008. Every year since then we have been implementing various rationalizations within our individual business functions, ranging from production to administration. In times of crisis it is sales that present the biggest problem, since it is difficult to find new markets across a relatively short period of time in the event of a surplus of supply over demand.

We are satisfied with the work of our sales departments in 2012, since we have obtained over 200 new customers in 35 countries worldwide achieving sales amount of EUR 26 million.

We have also paid special attention to the business structure of our Group, which is why in 2011 we began to rationalize our sales network which had lost its function, or in other words, become too expensive for current conditions. We dissolved the company IUENNA Stahl in Austria, while subsidiaries Acroni Italia and Acroni Deutschland are being wound up and are expected to be closed by the end of 2013.

Along with the introduction of new IT support we also wish to change the organizational culture of SIJ; to abandon old, out-of-date processes and motivate our employees to contribute to the implementation of new and improved ones. The main tasks in this field are to be carried out by the senior and middle management, of course; however, the final goal can only be achieved with the help of all our employees, who therefore play a very significant role. We are undoubtedly faced with a very demanding and time-consuming exercise.

Looking back to what we achieved in 2012, I would like to point out the following:

- ❖ We have continued our planned investment policy, for which we dedicated over EUR 50 million. Among the most significant achievements are the following two: the New Plate Mill at Acroni, and the new ESR furnace at Metal Ravne. Both these acquisitions will widen our production range to include products with a higher added value.

Due to the implementation of these investment projects, our business results were poorer in December, as production at Acroni was stopped for the entire month; this also influenced business operations in January 2013.

- ❖ Sales of the companies (excluding sales of scrap steel) increased by 2% in 2012; however, the sales value failed to follow this trend because the sales prices achieved were lower, and sales value dropped by 6% in comparison to 2011.

Analysis showed that the gap between sales and purchase prices represented a negative influence on profit to the amount of EUR 20.5 million, which could not be remedied by the effects of quantities and somewhat improved structure of products sold (EUR 3.2 million).

- ❖ Another factor that considerably influenced our results was the price of energy-generating sources, which was estimated to be 15–30% higher than that of our competitors. Due to these higher prices alone our results dropped by EUR 6.2 million, which, together with lower sales prices, amounts to EUR 26.7 million worth of influence on profit for the year 2012. Had these two factors been eliminated, our profit in 2012 would have exceeded those of 2011 by nearly EUR 7 million.
- ❖ Profit for the year 2012 was just above zero and this has significantly influenced the value of all performance ratios.

In conclusion, let us take a look at 2013: our expectations and goals, set at the beginning of 2013, are high. The start of the year does not look very promising. The number of orders is still low. The recovery of the market is slow and extremely unreliable, and the price ratios show no significant improvements. Nevertheless we believe that our saving measures and current operating conditions will help us achieve a higher profit than in 2012.

President of the Board of Directors
SIJ, d. d.

Tibor Šimonka



REPORT OF THE SUPERVISORY BOARD

In 2012 the Supervisory Board of SIJ – Slovenian Steel Group, d. d. (hereinafter: the Supervisory Board) monitored and revised the operations of the companies within SIJ – Slovenian Steel Group (hereinafter: companies of SIJ Group) and of SIJ – Slovenian Steel Group, d. d. (hereinafter: SIJ, d. d.), and adopted decisions in line with its powers specified in the Companies Act, the Financial Operations of Companies Act, the statute of SIJ, d. d., the Rules of Procedure of the Supervisory Board and other applicable regulations.

ABOUT THE SUPERVISORY BOARD

In accordance with the provisions of the company's statute, the Supervisory Board of SIJ consists of seven members:

Andrey Zubitskiy

Chairman of the Supervisory Board

He was first elected a member of the Supervisory Board at the 17th meeting of the company's General Assembly on 4 December 2007 for the term to 11 April 2011. After the expiry of the term he was re-elected a member of the Supervisory Board at the 21st meeting of the company's General Assembly on 5 April 2011 for a term of four years, commencing on 11 April 2011.

He was first elected Chairman of the Supervisory Board at the 5th meeting of the Supervisory Board, on 3 April 2008.

During his second term he was re-elected Chairman of the Supervisory Board at the first meeting of the second term, on 7 June 2011.

Ivan Simič

Deputy Chairman of the Supervisory Board

He was first elected a member of the Supervisory Board at the 21st meeting of the General Assembly, on 5 April 2011, for a term of four years commencing on 11 April 2011.

He was re-elected Deputy Chairman of the Supervisory Board at the first meeting of the new term of the Supervisory Board, on 7 June 2011.

Mateja Gubanec

Member of the Supervisory Board

She was first elected a member of the Supervisory Board at the 21st meeting of the General Assembly, on 5 April 2011, for a term of four years commencing on 11 April 2011.

Leonid Novikov

Member of the Supervisory Board

He was first elected a member of the Supervisory Board at the 19th meeting of the General Assembly, on 26 August 2009, for the term to 11 April 2011. After the expiry of the term he was re-elected a member of the Supervisory Board at the 21st meeting of the General Assembly, on 5 April 2011, for a term of four years commencing on 11 April 2011.

Sergey Cherkaev

Member of the Supervisory Board

He was first elected a member of the Supervisory Board at the 19th meeting of the General Assembly, on 26 August 2009, for the term to 11 April 2011. After the expiry of the term he was re-elected a member of the Supervisory Board at the 21st meeting of the General Assembly, on 5 April 2011, for a term of four years commencing on 11 April 2011.

Sergey Frolov

Member of the Supervisory Board

He was elected a member of the Supervisory Board at the 20th meeting of the General Assembly, on 30 August 2010, for the term to 11 April 2011. After the expiry of the term he was re-elected a member of the Supervisory Board at the 21st meeting of the General Assembly, on 5 April 2011, for a term of four years commencing on 11 April 2011.

Alexey Reshotka

Member of the Supervisory Board

He was elected a member of the Supervisory Board at the 21th meeting of the General Assembly, on 5 April 2011, for a term of four years commencing on 11 April 2011.

TASKS OF THE SUPERVISORY BOARD

The Supervisory Board held three regular working meetings via a videoconference system at two locations, Moscow and Ljubljana:

- ❖ The 3rd regular meeting of SIJ Supervisory Board was held on 21 February 2012.

In Moscow, Leonid Novikov, Sergey Frolov, Sergey Cherkaev and Alexey Reshotka were present. In Ljubljana, Andrey Zubitskiy, Ivan Simič and Mateja Gubanec attended the meeting.

- ❖ The 4th regular meeting of SIJ Supervisory Board was held on 4 July 2012.

In Moscow, Leonid Novikov, Sergey Frolov and Sergey Cherkaev were present. In Ljubljana, Andrey Zubitskiy, Ivan Simič and Mateja Gubanec attended the meeting. One member of the Supervisory Board, Alexey Reshotka, was not present at the meeting.

- ❖ The 5th regular meeting of SIJ Supervisory Board was held on 18 October 2012.

In Moscow, Alexey Reshotka, Sergey Frolov and Sergey Cherkaev were present. In Ljubljana, Andrey Zubitskiy, Ivan Simič and Mateja Gubanec attended the meeting. One member of the Supervisory Board, Leonid Novikov, was not present at the meeting.

All the meetings of the Supervisory Board were chaired by Andrey Zubitskiy. The Supervisory Board monitored the operations of the companies of SIJ Group and was advised of the implementation of planned goals through information and reports by the Board of Directors of SIJ, d. d.

At its meetings the Supervisory Board discussed the following issues and made these decisions:

1. The Supervisory Board thoroughly reviewed the annual report of SIJ, d. d. and SIJ Group within the legal deadline. The auditor's report was also discussed, and it was affirmed that the statements of financial position are in every aspect a fair representation of each individual company's financial position on 31 December 2011 and its profit and loss statement and cash flow for the financial year in question, in accordance with the International Financial Reporting Standards as adopted by the EU. It was further confirmed that, in line with the first paragraph of Article 57 of the Companies Act, the auditors also reviewed the business reports which are, in their opinion, compliant with the audited statements of financial position.
2. The Supervisory Board determined that the Annual Report of the Board of Directors was a fair picture of their activities, and provided complete information on operations in 2012. Since there were no objections regarding the Annual Report, it was unanimously approved by the Board. In accordance with the provisions of Article 282 of the Companies Act (ZGD-1) and the statute of SIJ, d. d., the Annual Report was thus deemed officially accepted.
3. The Supervisory Board established that on 31 December 2011 the distributable profit amounted to EUR 12,441,766, of which EUR 220,175 represented net profit (EUR 209,166 after forming legal reserves), and EUR 12,232,599 represented profits brought forward from 2011. The Supervisory Board agreed with the Board of Directors' proposal to submit for approval to the General Assembly of SIJ, d. d. a decision that the stated distributable profit of 2011 to the amount of EUR 12,441,766 should remain undistributed. At the same time the Supervisory Board proposed to the General Assembly of SIJ, d. d. to dismiss the Board of Directors, and the Supervisory Board of the company, for the

financial year which ended on 31 December 2011. The Supervisory Board additionally suggested that the General Assembly should award the Members of the Supervisory Board for their successful work in 2011. The General Assembly confirmed all the Supervisory Board's proposals at its 23rd meeting, on 29 August 2012.

4. At its 4th regular meeting, the Supervisory Board took note of the information regarding the business operation of the companies of SIJ Group during the first half of 2012, and of the information regarding SIJ Group's business plan for 2012.

Furthermore, the Supervisory Board decided to propose to the General Assembly of SIJ, d. d. that the audit firm Deloitte revizija, d. o. o. Ljubljana be appointed for the audit of the statement of the financial position of SIJ, d. d., and the consolidated financial statements of SIJ Group, for the business year ending on 31 December 2012. The General Assembly of SIJ, d. d. confirmed the Supervisory Board's proposal at its 23rd meeting, on 29 August 2012.

The Supervisory Board examined a request by the Capital Assets Management Agency of the Republic of Slovenia (AUKN) with regard to access to the data for the appraisal and thorough revision, and access to the data room for the matter of sales of 25.0001% of SIJ, d. d.'s shares, and concluded that it was for the Board of Directors to decide which data is to be submitted to the AUKN.

The Supervisory Board discussed the purchase a majority share of CSM in Italy, and confirmed it.

It also took note of a report on the purchase of a new IT system for SIJ Group, and the conclusion of a contract for the execution of consulting services, with regard to the implementation of the new IT system and the delivery of standard software equipment and related technical support with Oracle Software, d. o. o., Ljubljana, Dunajska cesta 156, Ljubljana.

Invitations for the meetings of the Supervisory Board, and the written materials which are the basis for the Supervisory Board's decisions, were sent to the members of the Supervisory Board via email.

EVALUATION OF THE BOARD OF DIRECTORS' WORK AND COOPERATION WITH THE SUPERVISORY BOARD

The Supervisory Board carefully monitored and controlled the management of SIJ, d. d. and the SIJ Group throughout the year. The members of the Supervisory Board have all the necessary data, reports and information at their disposal. Also, the Board of Directors presented them with more detailed or additional reports on their request. The material was given in the week before the meeting, and thus the preparations for the meeting were carried out smoothly. The Board of Directors, together with its specialist services, has been present at all meetings. The President of the Board of Directors usually prepared an introductory explanation for each item on the agenda, and answered the raised questions together with the Member of the Board of Directors and their co-workers.

The cooperation between the Board of Directors and the Supervisory Board was good, with frequent communication also outside the regular meetings of the Supervisory Board.

The Supervisory Board assesses that the Board of Directors did everything in its power to achieve the set goals in this difficult situation. Operating results were good.

APPROVAL OF THE ANNUAL REPORT AND PROPOSAL ON THE USE OF DISTRIBUTABLE PROFIT FROM 2012

The Supervisory Board reviewed both the Annual Reports of SIJ, d. d. and the SIJ Group within the legally prescribed time limit. It also reviewed the auditor's report, in which the auditing company Deloitte revizija, d. o. o. states that the financial statements give a true and fair view of the financial position of the individual company as at 31 December 2012, as well as their operating results and cash flows for the financial year, in accordance with the International Financial Reporting Standards, as adopted by the EU. In line with the first paragraph of Article 57, the auditors also reviewed the business reports which are, in their opinion, compliant with the audited statements of financial position.

The Supervisory Board believes the Annual Reports of SIJ, d. d., and of the SIJ Group to be a fair picture of their activities, and provides complete information on operations in 2012. Since there were no objections regarding the Annual Reports, the Board unanimously approved them at the meeting on 8 July 2013. With this, the Annual Reports of SIJ, d. d., and of the SIJ Group were officially approved in accordance with the provisions of Article 282 of the Companies Act and the statute of SIJ, d. d.

Together with the Annual Report, the Supervisory Board also confirmed the Board of Directors' proposal on the usage of distributable profit.

SIJ generated a net profit of EUR 10,942,910 in 2012, or EUR 10,395,764 after forming legal reserves. This, together with retained profits to the amount of EUR 12,441,766 represents the distributable profit of EUR 22,837,529 as at 31 December 2012. The Board of Directors and the Supervisory Board of SIJ, d. d., suggest to the General Assembly that the distributable profit remains undistributed.

President of the Supervisory Board

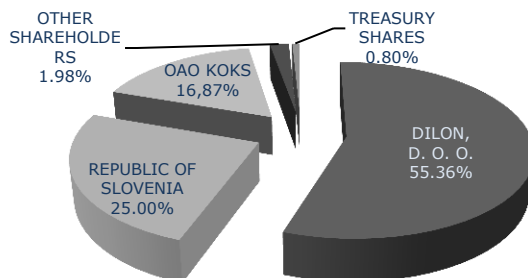
Andrey Zubitskiy

ABOUT SIJ GROUP

The controlling company of the SIJ Group – Slovenian Steel Group, is SIJ, d. d.:

Registered office	Gerbičeva 98, 1000 Ljubljana, Slovenia
Phone number	+386 1 242 9800
E-mail	info@sij.si
Website	www.sij.si
Main activity	70.100 Activities of Head Offices
Registry number	SRG 1/03550/00
Founding date	22. 2. 1995
Registered share capital	EUR 145,266,065.75
Number of shares	994,616 ordinary no par value shares
Ownership	55.36% DILON, d. o. o., Gerbičeva ulica 98, Ljubljana 25.00% Republic of Slovenia, Gregorčičeva ulica 20, Ljubljana 16.87% OAO KOKS, 1st Stakhanovskaya str. 6, Kemerovo, Russian Federation 1.98% other shareholders 0.80% treasury shares
Registration number:	5046432
Tax number:	51018535

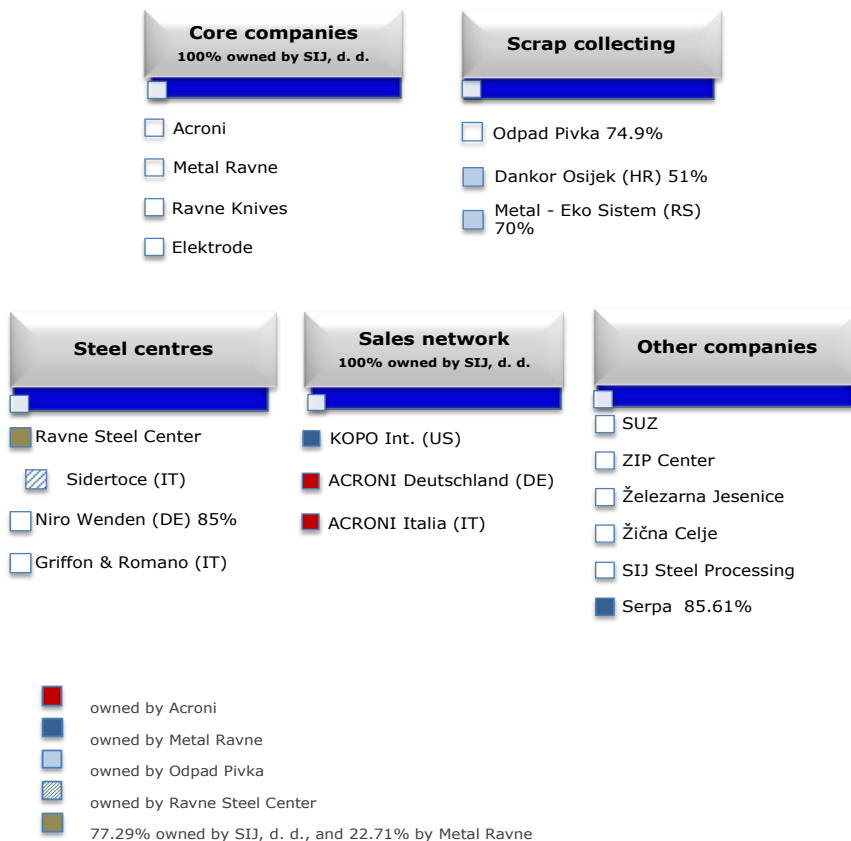
OWNERSHIP STRUCTURE AND ORGANIZATION OF THE SIJ GROUP



Of the other shareholders the largest share is owned by D. P. R., the authorized company Ravne and Stanovanjsko podjetje Ravne (1.98% in total).

ORGANIZATIONAL STRUCTURE OF THE SIJ GROUP

SIJ - Slovenian Steel Group, d. d.



In 2012 the Group lost two companies: the liquidation process for IUENNA Stahl was completed in December, and the insolvency procedure for SMG Edelstahl began in October and is still in progress.

The group annexed Metal-Eko Sistem, a company from Serbia which is engaged in collecting and recycling waste materials and thus adds to our raw material base. The 70% owner as of 28 August 2012 is Odpad Pivka.

The owner of Sidertoce as of 14 November 2012 is Ravne Steel Center.

On 14 May 2012 SIJ, d. d., acquired a 40% share of Griffon & Romano, and thus became its 100% owners.

STRATEGIC ORIENTATION

The strategic goals of the management of SIJ Group are aimed at the continuation of our investment policy, which is intended to develop the competitiveness of the business operations of the companies within the Group. We intend to reach these goals through activities in several fields:

❖ **Technical advances**

Our strategic plan pays special attention to investments in technological modernization and the improved effectiveness of our business operations. In doing so, we wish not only to maintain our competitiveness, but also to enhance our position on the market of stainless steel quarto plates and tool and special steels.

❖ **Development of new materials and products**

We will continue to improve our competitiveness by following the needs of the industries where we are already established (the petrochemical industry, machine building, the car industry), and those where we are yet to establish our position as a recognized supplier (the energy sector, aviation, etc.).

❖ **Expansion of our sales network and processing levels**

In striving to bring our products closer to the end customers, we have been building a sales network to eliminate intermediaries for the past several years, and expanding our steel centres to provide our end customers with the required quality, heat processing and dimensions of products.

❖ **Supporting innovative workflow**

By improving our business results and the international recognition of SIJ Group, and by maintaining and enhancing a healthy and safe working environment, we wish to motivate our employees to become even more dedicated to the work they do, the company they work for, and SIJ Group as a whole.

DEVELOPMENT STRATEGY OF SIJ GROUP



The key goals we will be aiming to achieve in the next ten years are focused on increasing the production and sales of stainless steel and special steel quarto plates to become the leading manufacturer in Europe. In the segment of highly specialized and mechanically processed high-alloy tool and special steel we want to become a more visible player in the European market (our present share is 7–9%) and increase our share in the American market.

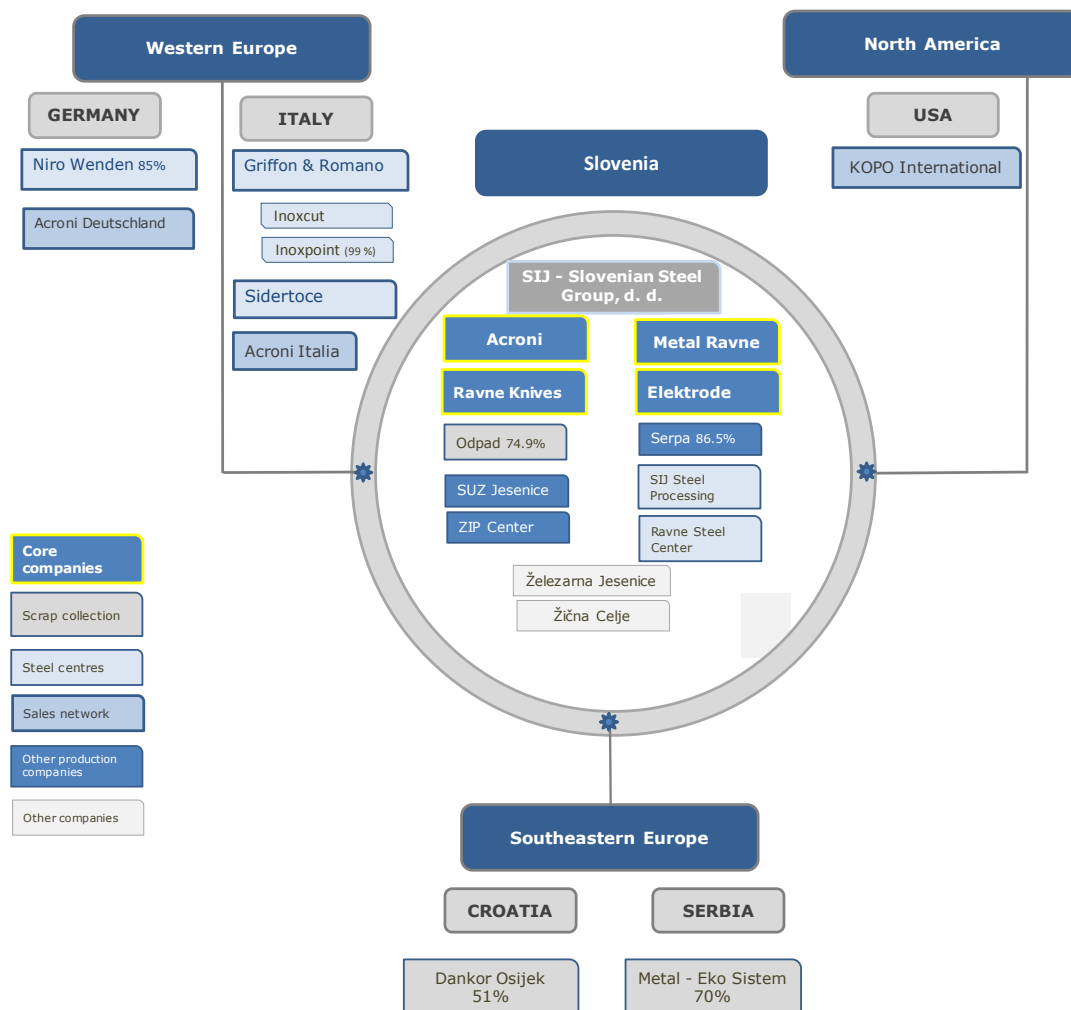
Sales of industrial knives and welding and filler materials still form part of our core programs.

To connect our production to our customers we have been strengthening our sales network by developing steel centres for the last three years.

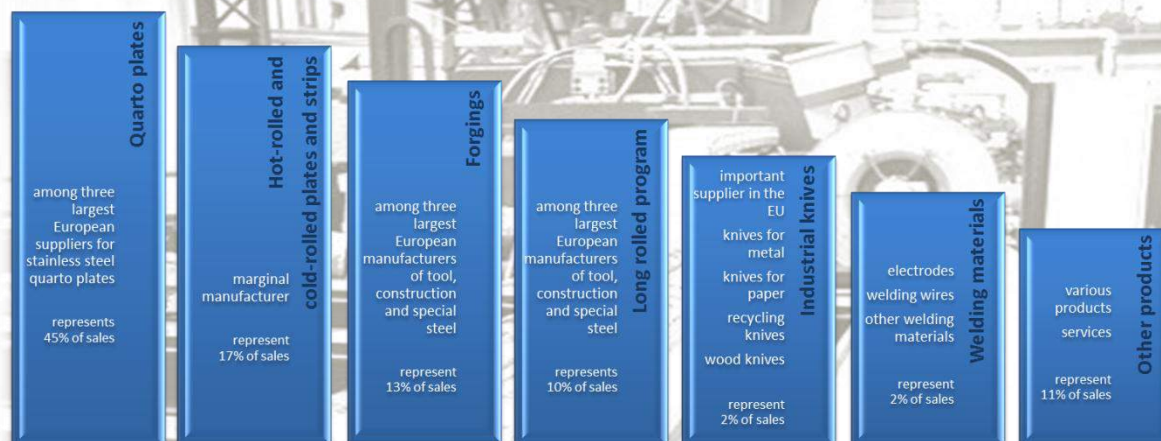
We have been strengthening the raw material base for both steel plants. We will continue to aim at these goals in the future, in order to reduce the number of intermediaries and bring our products closer to the end customers.

THE MARKET AND PROGRAM STRUCTURE OF SIJ GROUP'S SALES

GEOGRAPHIC STRUCTURE



PROGRAM STRUCTURE


 EUR 732.5 million of consolidated income in 2012


Compared to the previous year, the share of quarto plates in the total sales of SIJ Group increased by 4.2 percentage points, whereas the share of cold and other hot rolled steel plates decreased by 2.2 percentage points. Our strategic focus on increasing the share of stainless steel quarto plates or products with high added value above all is therefore being fulfilled.

In the long steel program the sales structure is also shifting towards more demanding programs, although the share of forgings decreased by 0.7 percentage points compared to the previous year, and the share of rolled products increased by 1.7 percentage points.

The share of welding materials and industrial knives slightly increased in 2012 (the share of welding materials by 0.3 percentage points and the share of industrial knives by 0.2 percentage points), while the share of other products and services decreased by 3.5 percentage points.



sij group

BUSINESS REPORT

BUSINESS REPORT

OUR BUSINESS ENVIRONMENT

GENERAL ECONOMIC TRENDS²

WORLD

In 2012, global economic activity increased by 3.3% compared to the previous year, which is 0.7% less than estimated. The biggest contributors to this growth were the third world economies (especially Brazil, China and India), even though they too are starting to show a negative impact, and adjustments to GDP growth, mainly downwards, have already been made. The European crisis is starting to bring about a slower growth outside of its own area; Japan is already facing the first reports of recession.

In 2013, GDP is predicted to increase by 3.9%, i.e. by 0.6 percentage points less than the current estimate. This estimate depends on the development of events in the eurozone. If the crisis here continues, this will bring even more insecurity to the global economy.

EUROPE

It may be that in 2012 we have finally seen the worst of the economic crisis in the eurozone. The whole year was marked by the constant anticipation of economic recovery, but however this never happened. It became clear towards the year's end that the constant adjustments of estimates were unrealistic and served as an optional stimulation for the stock exchange market and shareholders.

Furthermore, the crisis acquired a wider social meaning; in a way it became an illness of today's European citizen trying to survive. This makes the average European citizen a metaphor for the economy of the eurozone, burdened with loans and mortgages from the time of economic well-being, weighed down with illiquidity and warehouses full of goods unable to make their way onto the market.

The development of events in the past year reflects the instability of the eurozone, and the contraction of the economy continues, due to the negative impact of the debt crisis in the eurozone on equity markets.

The central eurozone of the EU-27 members remained in recession even after the end of 2012, and, compared to 2011, the recession caused a 0.6% contraction in the economy in 2012 and has also affected the wider eurozone (-0.5% GDP).

Analysts expected the eurozone to see no more than a 0.4% decrease in GDP in the last quarter; however, in all major European economies GDP decreased more than predicted by the analysis.

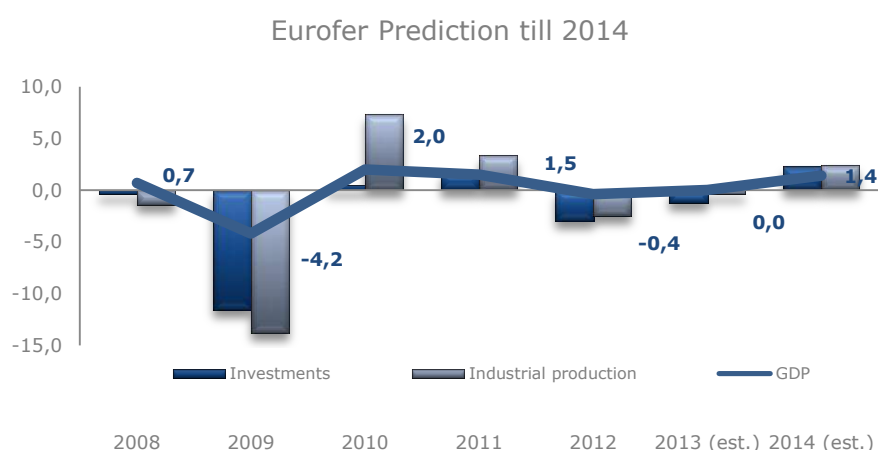
In the last three months of last year, the decrease recorded at the quarterly level in Germany was 0.6%, in France 0.3%, in Austria 0.2%, and in Hungary 0.9%.

² Various sources (SURS, Finance, Krizno ogledalo)

Among our traditional economic partners it is Italy that it is in a very poor situation, since the recession there deepened even more in the last quarter of last year. At the quarterly level, Italy saw a 0.9% decrease in GDP, whereas at the annual level the decrease in GDP amounted to 2.7%.

As it represents the third largest economy in the eurozone, Italy and its descent into the depths of the crisis significantly affects the entire eurozone economy.

The unemployment rate in the eurozone has been at around a 10% level since 2010, but in 2012 it increased to 10.6%. In 2013 and 2014, the unemployment rate is expected to increase by another one percentage point.



According to Eurofer's forecast, private consumption will only begin to improve more intensively in 2014 (it is expected to increase by less than one percent compared to 2013).

The industry has been regressing for the last couple of years, which has consequently influenced the lowering of GDP growth, resulting in fewer investment projects, especially in construction, which additionally weakens its value. In 2012, operations in the steel industry decreased by as much as 2.5% compared to 2011.

Eurofer economic ratios ³	2008	2009	2010	2011	2012	2013 forecast	2014 forecast
GDP	0.7	-4.2	2.0	1.5	-0.3	-0.1	1.3
Private consumption	0.3	-1.7	1.0	-0.1	-0.9	-0.4	0.7
Governmental use of assets	2.1	2.0	0.8	-0.1	0.1	-0.5	0.0
Investments	-0.4	-11.6	0.5	1.7	-2.8	-1.2	2.1
Investments in hardware	0.1	-17.7	4.5	4.2	-3.8	-1.9	2.4
Investments in construction	-0.9	-6.9	-3.5	-0.4	-3.0	-1.8	0.6
Exports	1.1	-12.8	10.7	6.2	2.2	2.1	4.7
Imports	1.2	-12.0	9.4	3.4	-0.3	0.7	3.8
Unemployment rate	7.5	9.2	9.6	9.7	10.6	11.3	11.2
Inflation	3.3	0.7	1.9	3.0	2.5	1.9	1.7
Industrial production	-1.4	-13.8	7.3	3.3	-2.5	-0.8	2.5

³ Economic and Steel Market Outlook 2013-2014

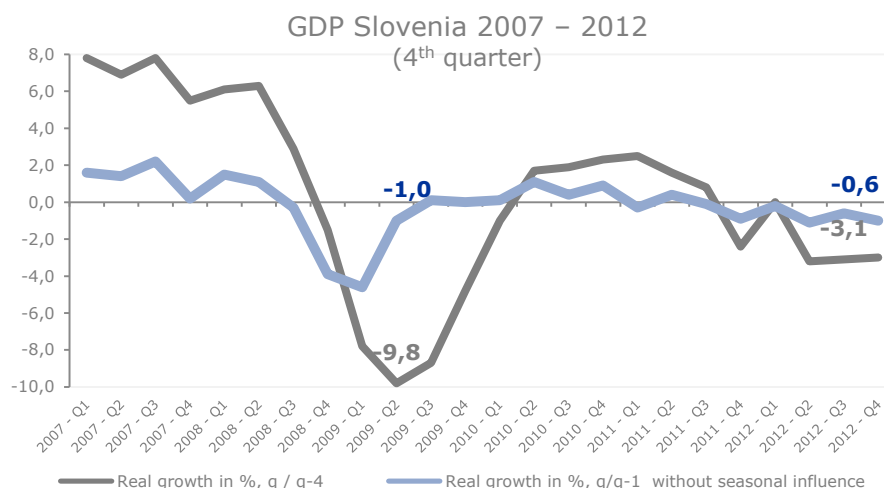
As a currency, the euro slightly strengthened at the end of 2012 compared to the US dollar, mainly due to OMT (Outright Monetary Transaction) safeguard measures. The euro continued to strengthen at the beginning of this year (1.35 EUR equalling 1 USD); however, any further increase in the value of the euro against the USD is not really expected in 2013.

ECONOMIC TRENDS IN SLOVENIA

According to SURS, Slovenia's GDP decreased by 3.0% in the fourth quarter of 2012, and by 2.3% in 2012. The repeated drop in Slovenian economic activity in the second and third quarter means that the Slovenian economy is once again in recession (defined as two consecutive quarters with decreased economic activity), this time in a so-called double dip recession (W).

Slovenia's debt currently amounts to approximately 55% of GDP, compared to that of the most indebted Eurozone countries which range from 80 to 90% of GDP.

Last year the GDP per inhabitant in Slovenia nominally amounted to EUR 17,244. According to the IMF, the GDP in Slovenia is predicted to decrease by 2.0% in 2013.



THE INDUSTRY

In Slovenia, the sales revenue in the industry at the annual level was 2.9% lower in 2012 than in the same period of the preceding year. The value of new received orders level decreased by 2.1% at the annual

Sales revenue in the fields of mining and processing was lower than the previous year throughout 2012: in mining by 14.5% and in processing activities by 0.5%.

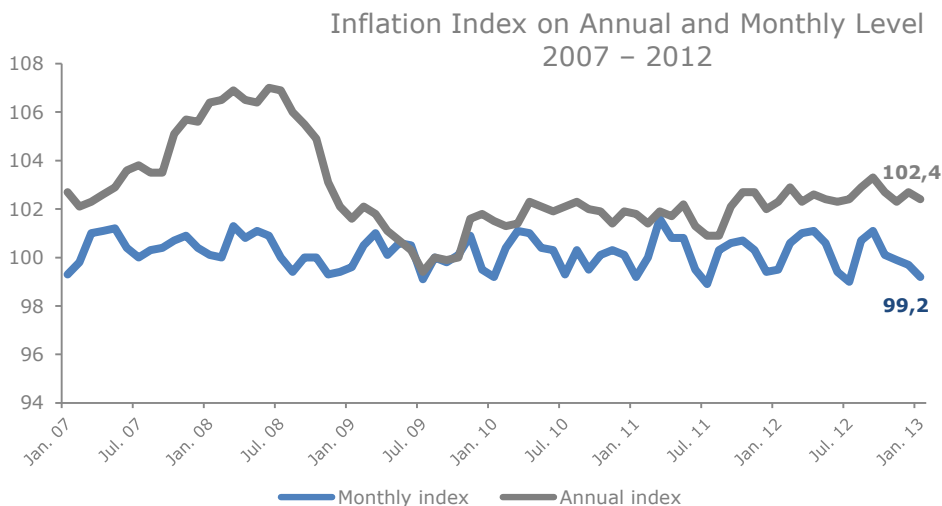
The sales value of new orders from the domestic market decreased by nearly 4% in 2012 compared to 2011, whereas the value of new orders from the foreign market remained the same as in 2011.

Fiscal consolidation and growing concern about the standing of the banking sector have decreased domestic demand, and the poorer conditions were further worsened by the weak external environment.

Because domestic demand was weaker, this was reflected in the negative influence on the general economic state. External demand continued to positively influence economic growth throughout the fourth quarter, but became weaker afterwards.

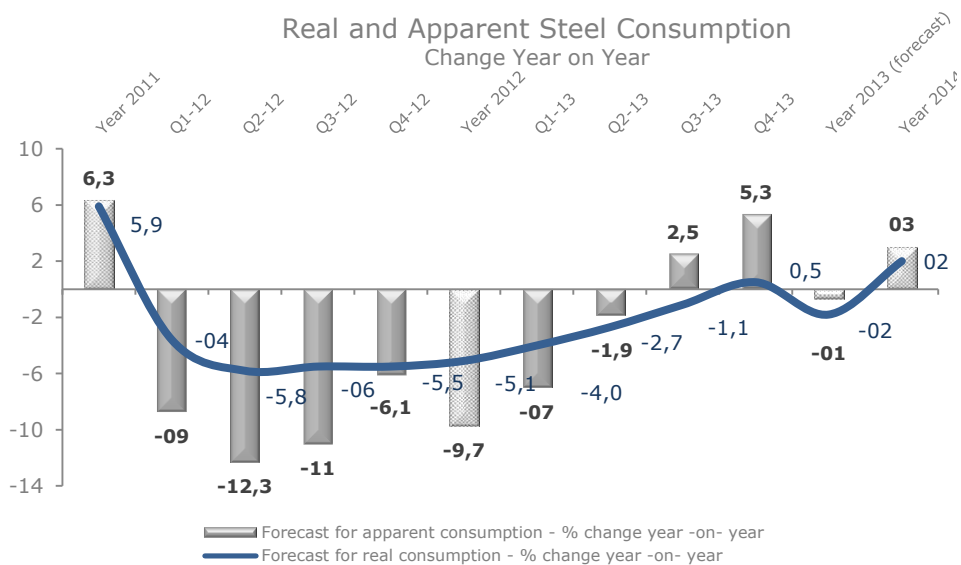
INFLATION

In 2012 inflation started to rise again since prices rose steeply in correlation with the increase in prices of petroleum products. The annual index of inflation growth at the end of 2008 was 2.7%.



STEEL MARKET

Global steel production saw 1.547 million tonnes of raw steel produced in 2012, which represents a modest 1.2% growth compared to the previous year. In the EU 208.8 million tonnes of raw steel were produced (this represents a 3.7% decrease compared to 2011).



The apparent consumption of steel in the EU was 9.7% lower in 2012 compared to the previous year; in the first quarter of 2012 consumption decreased by 8.7% and in the second by as much as 12.3%. Later the decrease stabilized somewhat and ended of the year at just under 10%.

The real consumption of steel in the preceding period saw less negative deviations and was higher than the current one.

In 2012 nearly all industries recorded a negative growth in the consumption of steel (with the exception of shipbuilding which has recorded an extremely high negative growth for the past three years). The forecasts for 2013 are still not too optimistic; however, the decrease in growth should stabilize.

PURCHASING MARKET – RAW MATERIALS

SIJ Group uses a unified purchasing policy for strategic materials. A unified policy is also used for our key suppliers and for managing the inventories of strategic raw materials. The positive effects of this are shown in greater purchasing power, reaching better and more unified conditions at the group level, and flexibility in complementing the needs of the individual companies.

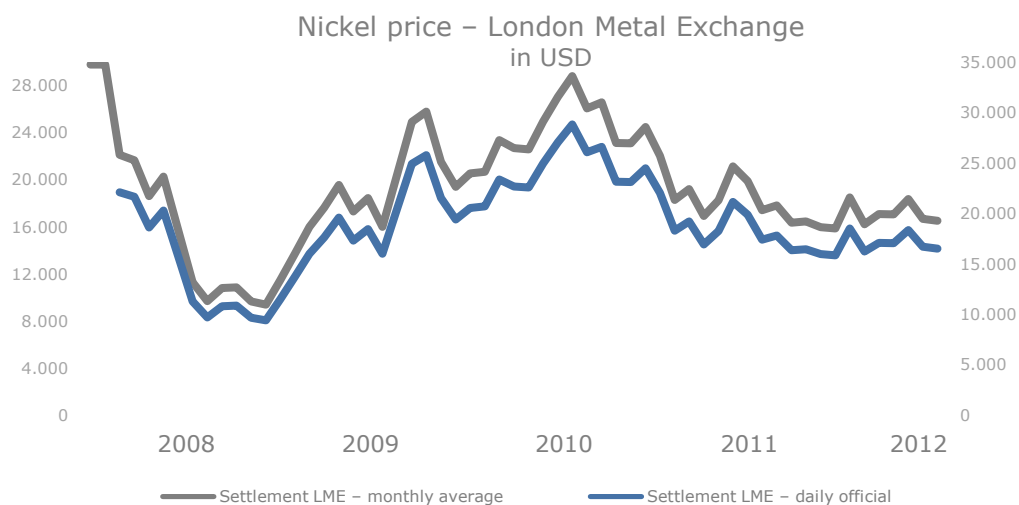
Our focus on long-term cooperation with suppliers known for their reliability and global competitiveness in a demanding market situation has turned out to be the right choice. In the second half of the year we were able to fulfil some short-term needs with spot purchases at attractive prices. A stable supply, flexibility of inventories and keeping stock at a minimum were achieved through our cooperation with our strategic partners.

Following our long-term goals, we have maintained a high percentage of supplies on the domestic market with regard to scrap steel, despite an increased presence of customers from Turkey in Koper and other nearby ports.

NICKEL

The availability and quality of key raw materials will continue to have a strong impact on the prices of steel products. One of the key raw materials used in the production of stainless steels is nickel, which is marketed via the stock exchange (London Metal Exchange). Over the past few years (2009, 2010, 2011) its price grew continuously (the average price during those periods amounted to over USD 20,000/t of nickel), whereas since the beginning of 2012 it has been consistently decreasing (from the beginning of last year to now the average price amounted to USD 17,000/t).

Price instability throughout 2012 was more a consequence of speculations on the financial market than of real demand from stainless steel manufacturers. The fact that nickel inventories on the LME increased by almost 60% last year confirms that this was mostly due to speculation.



Nickel is one of the most strategic raw materials in the steel industry, and as such is very sensitive to the supply and demand trends of steel buyers and trends in stainless steel production across the world. Its price will strongly impact the production of steels from stainless steel programs.

SCRAP STEEL

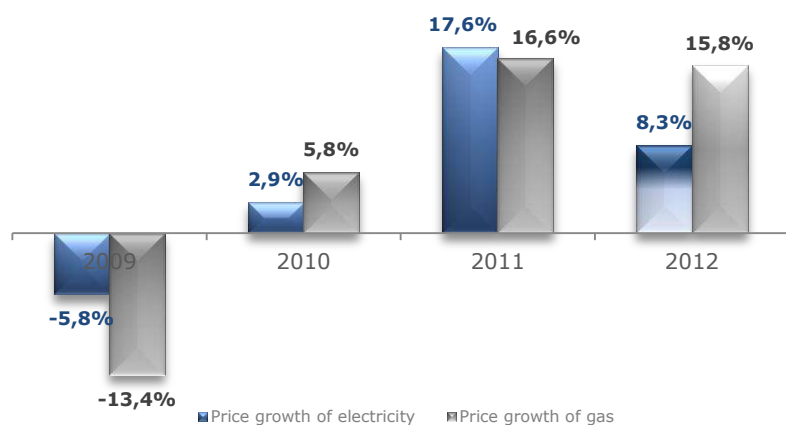
The price level of scrap steel remained relatively high in contrast to other strategic materials. In general, prices in the second half of the year were lower than in the first half, but due to the seasonal influence of the last months price trends started to grow again. The constant pressure on the price of scrap steel was too strong and consequently influenced its short-term availability and the greater competitiveness of customers outside the eurozone, who could exploit the price fluctuations on the European market.

FERROMOLYBDENUM AND FERROCHROME

The price level of both these strategically important alloys reflected the situation on the steel market, where conditions were considerably harsher in the second half of the year. There was greater activity on the ferrochrome market than on the ferromolybdenum market. The leading manufacturers raised their prices by 15% in the second quarter and increased production, which led to excess availability and a decrease in prices in the third quarter. The bottom was reached in the last quarter of the year, when the prices were the lowest of the past two years. The manufacturers therefore began to limit the production of ferrochrome once more.

ENERGY-GENERATING PRODUCTS

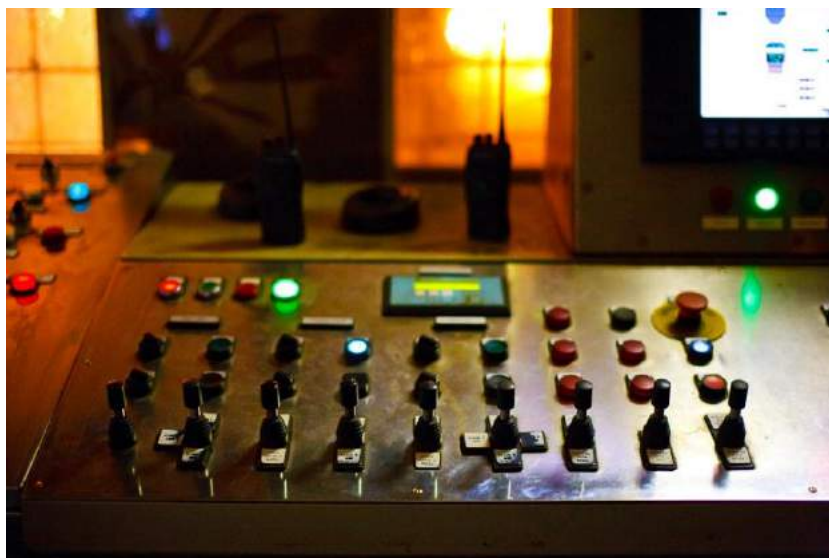
Price Growth of Electricity and Gas



Electricity prices for both steel companies, Acroni and Metal, have increased by 23.6% on average during the period between 2008

and 2012. Electricity prices for both these companies were on average 8.3% higher in 2012 than in 2011.

The period from 2008 to 2011 saw a moderate increase in gas prices, rising by no more than 6.8%. Compared to the same period of the previous year, the gas prices in both steel companies increased by 15.8% on average in 2012, and by 23.7% on average in the period 2008–2012.



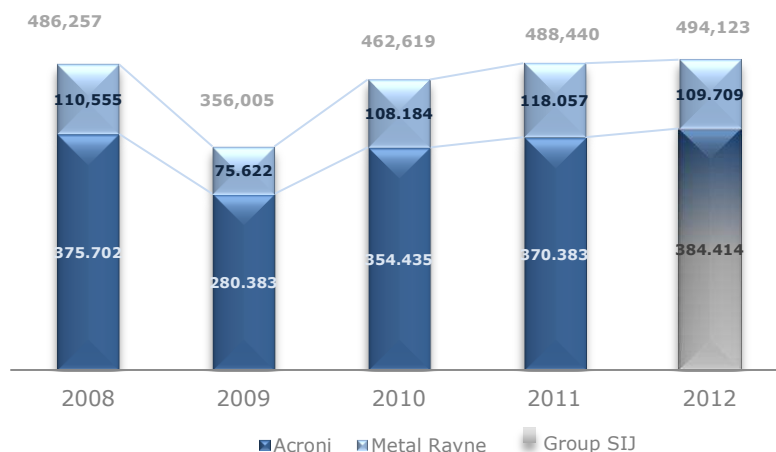
PERFORMANCE ANALYSIS

PRODUCTION

CRUDE STEEL

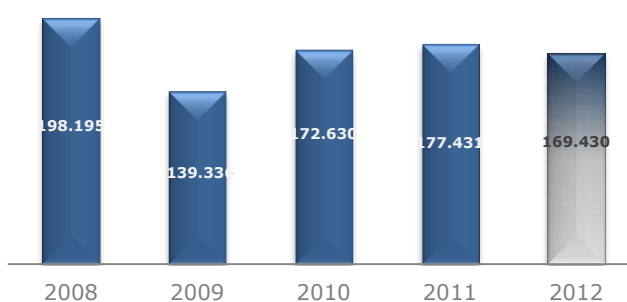
The quantity of crude steel has not changed much over the past 20 years; what has changed significantly, though, is the structure of quality groups of steel. Therefore, quantities cannot be compared since the nominal capacity of the steel plant is reflected differently in the production of regular or stainless steels. 102,564 t of stainless steels were cast in 2012, which amounts to 21% of total production.

Crude Steel Production – SIJ Group (in Tonnes)



Steel Production - EU (27) in K Tonnes

In 2012, steel production decreased by 4.5% in the countries of the European Union⁴, whereas it increased by 3.8% in SIJ Group. On a global scale, steel production increased by 1.4%.



⁴ Source: www.worldsteel.org

SALES AND REVENUES

Despite the negative trend in steel consumption in 2012, we have successfully adapted our market activities and sales program to the stringent conditions of both European and global markets. Through our quick response to supply needs, and flexibility in price adaptations, we have been able to keep our customers satisfied even at this time of such difficult market conditions, and consequently we have maintained the number of orders to the level of production capacity.

Practicing a unified sales and marketing policy at the level of SIJ Group gives us the opportunity to benefit from the synergistic effects of joint presentations at fairs as well as other promotional activities, and improve the recognition of our individual companies and SIJ Group as well as our trademarks on global markets.

To achieve the goal of offering the customer steel products with a higher added value, we also seek to harness the synergy of complementary production programs between the companies, common sales channels, and exploiting common marketing potential by expanding the network of our own steel centres in the core markets.

We constantly strive to deliver excellent performance in business transactions with our clients, as well as to introduce common marketing standards in maintaining and establishing partnership relationships with our clients.

With the goal to achieve predicted sales revenues in the individual companies of SIJ Group in mind, we plan and practice an appropriate pricing policy in accordance with market conditions as well as the confirmed monthly and annual financing plans of the individual companies of SIJ Group.

Constant research of the market, market potentials and consumers' needs, the provision of an up-to-date flow of information and data about market trends, and benchmarking enable us to optimise our sales capacity against production capacity in order to fill the production capacity with orders and achieve a targeted profitability. Maximum use of production capacity with orders also enables us to reach the target profitability.

SALES QUANTITY AND VALUE

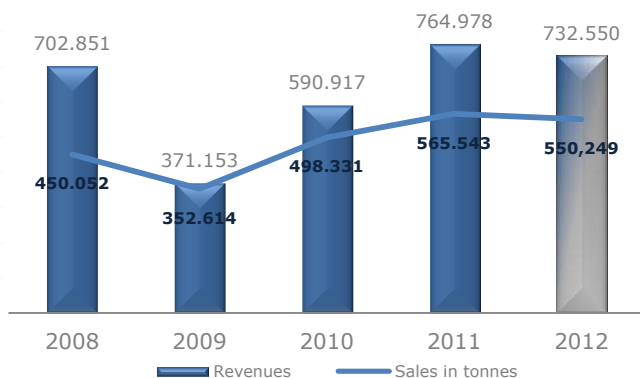
in Tonnes	2008	2009	2010	2011	2012	12/11
Total sales	578,790	437,528	604,316	701,603	732,295	104
Consolidated sales	450,052	352,614	498,331	565,543	550,249	97

in KEUR	2008	2009	2010	2011	2012	12/11
Total sales	851,947	422,463	695,878	910,406	888,670	98
Consolidated sales	702,851	371,153	590,917	764,978	732,550	96

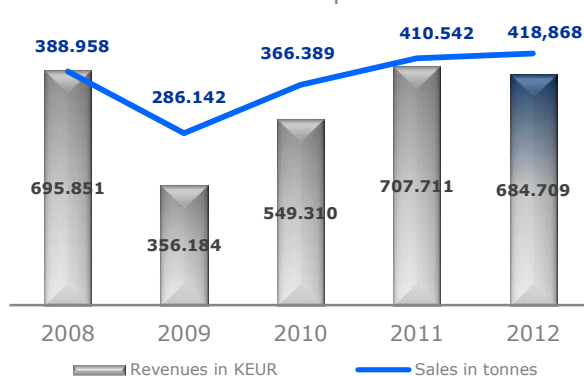
Total unconsolidated sales value fell behind that of last year by only two percentage points, since the companies of SIJ Group increased sales in 2012.

After excluding sales of scrap steel, the sales of the Group increased by two percent.

Sales Volume and Value
in Tonnes and KEUR



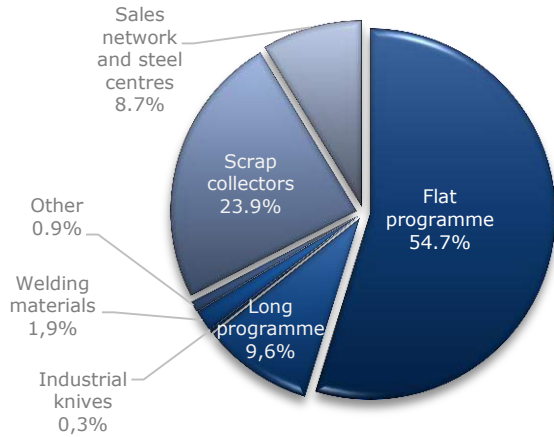
Sales Volume and Value
without Scrap



SALES BY PROGRAMS

in Tonnes	2011	2012	12/11
Flat program	288,776	301,079	104
Long program	52,927	52,844	100
Industrial knives	1,447	1,573	109
Welding materials	9,461	10,236	108
Other products	7,851	5,185	66
Total production companies	360,462	370,917	103
Scrap collection	155,000	131,381	85
Sales via sales network	50,081	47,569	95
Total	565,543	549,868	97

Sales by programmes 2012



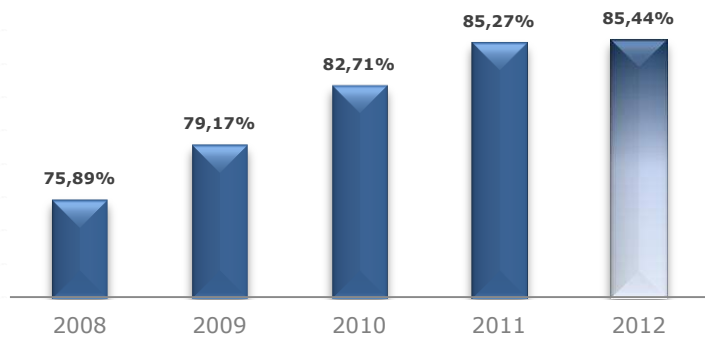
CHANGE IN SHARE
(in percentage points)
COMPARISON TO 2011

❖ Flat program	+3.7
❖ Long program	+0.2
❖ Industrial knives	+0.0
❖ Welding materials	+0.2
❖ Scrap collecting	- 3.5
❖ Steel centres and sales network	- 0.1
❖ Other	- 0.4

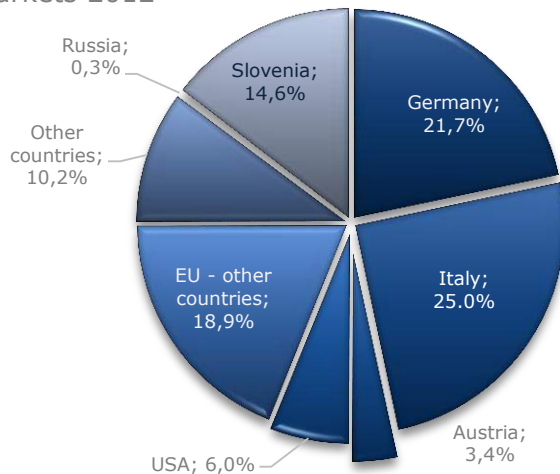
SALES PER MARKETS

Ever since the collapse of the Yugoslavian market at the beginning of the 1990s, we have continuously increased the percentage of exports in product sales revenues, even during the crisis. This was possible due to our active investment policy which enabled us to keep in touch with the competition in our most relevant European markets.

Share of Export in Sales



Markets 2012



CHANGE IN SHARE
(In percentage points)
COMPARISON TO 2011

❖ Germany	- 3.2
❖ Italy	+0.0
❖ Austria	- 0.9
❖ USA	+0.8
❖ EU - other countries	+1.0
❖ Other countries	+2.3
❖ Russia	+0.1
❖ Slovenia	- 0.2

PURCHASE AND OPERATING EXPENSES

PURCHASE

Practicing a unified sales policy gives us the opportunity to benefit from the synergistic effects between individual companies within SIJ Group.

The two that have the most in common are the metallurgical companies Acroni and Metal Ravne, where synergistic effects can be used in the key field of strategic raw materials. A unified policy is used for our key suppliers and for managing the inventories of strategic raw materials. Our focus on long-term cooperation with suppliers known for their reliability and global competitiveness in a demanding market situation has turned out to be the right choice. The positive effects are shown in greater purchasing power, achieving better and more unified conditions, and flexibility in complementing the needs of the individual companies.

Following our long-term goals, we have maintained a high percentage of steel scrap supplies on the domestic market.

Synergistic effects are also evident in other fields of purchase. A unified policy and achieving unified conditions with our suppliers are an advantage at the Group level, but particularly for smaller companies.

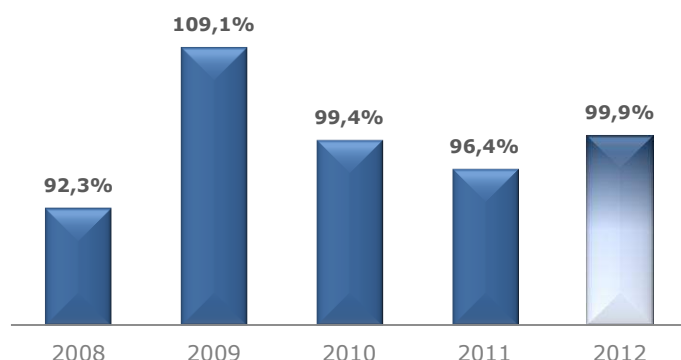
Among the strategic raw materials the largest share of the whole sales in Acroni is represented by regular and stainless scrap (69.2%), followed by alloys, representing 26.6%, nearly half of which is nickel.

In Metal Ravne, alloys represent a much larger percentage of the sales, as much as 45.9%, while scrap steel represents 29.6%. Nickel is not as important for production in Metal Ravne as are Ferrochrome and Ferromolybdenum, which together represent as much as 63.3% of all purchased alloys.

In accordance with this we are focused on the strategic purchase of raw materials to a greater extent than anything else, since raw materials constitute as much as 60% of all our operating expenses.

OPERATING EXPENSES AND COSTS

The Share of Business Expenses in Revenues

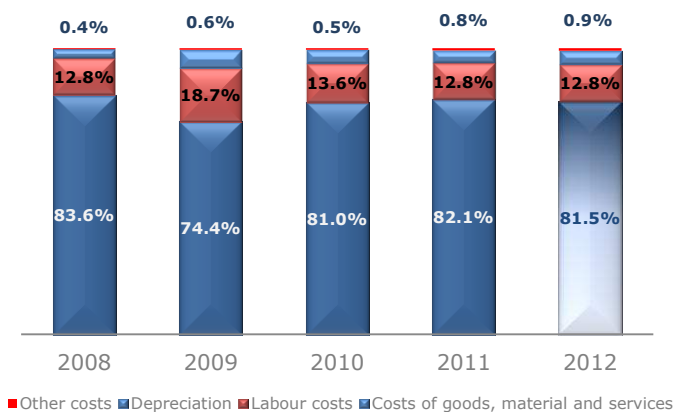


In 2012 we managed to sustain operating profit in spite of lower income caused by lower sales prices. We covered all operating as well as finance expenses.

Note: The calculation of operating expenses also includes the change in the value of inventories

Due to the decreased demand for raw materials on global markets, we bought most of the material at prices that were not entirely in accordance with the trend of demand and changes in sales prices, so the share of material cost in total income decreased only by 0.6%. Labour costs remained at approximately the same level, with deviations only recorded in 2009 and 2010.

Business Expenses Structure

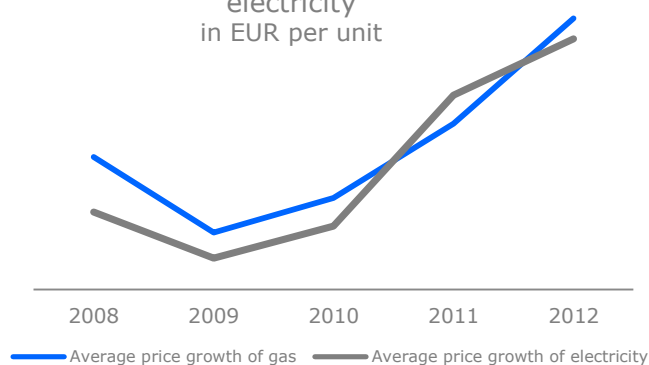


Taking into account all operating income (excluding the change in the value of inventories), income decreased by EUR 33.2 million in 2012, and operating expenses (including the change in the value of inventories) by merely EUR 7.7 million.

Apart from price distortions, what affected us most in 2012 were the high costs of energy-generating sources, in particular natural gas, but also electricity.

Compared to 2011, costs have increased by EUR 4.8 million due to natural gas prices, and by EUR 1.4 million due to electricity prices.

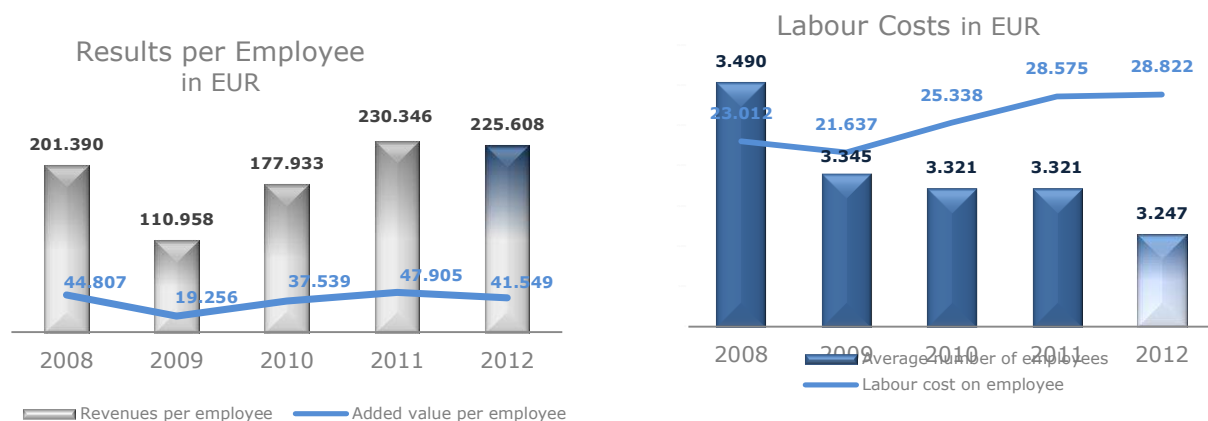
Average price growth of gas and electricity in EUR per unit



We saved EUR 0.4 million through rationalised energy consumption, and another EUR 0.4 million through decreased production.

The total negative impact of both energy-generating sources on profit amounted to EUR 5.4 million.

Labour costs, which constitute 12.8% of all operating expenses, decreased by 1.4% compared to last year due to a smaller number of employees, but they represent the same percentage in operating expenses. Labour costs per employee, however, increased by 1.4% compared to 2011.

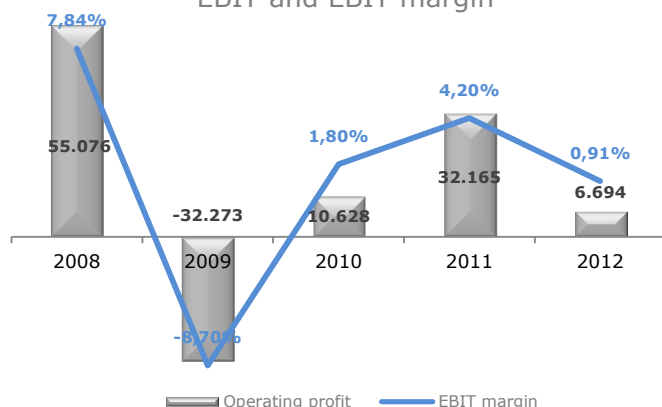


PROFIT/LOSS AND RATIOS

Due to the imbalance between the sales and purchasing prices (caused by a surplus of supply on the steel market, higher energy costs (costs increased by 6.2 million) and a one month's production shutdown in Acroni (in January and December 2012, the influence of which is estimated to EUR 2.2 million) the operating result is over 21.3 million lower than it would be. Despite the changing market conditions we were able to achieve a better result through an improved program structure of sales, while we also closely monitored all other processing and fixed costs. The only negative deviation was that of the costs of energy-generating sources.

		2011	2012	12/11
Revenues	EUR	764,977,836	732,549,967	96
Gross profit, margin	%	38.96	42.47	109
Operating profit (EBIT)	EUR	32,164,550	6,694,392	21
EBIT margin	%	4.20	0.91	22
Amortization/depreciation	EUR	32,029,018	34,625,552	108
EBITDA	EUR	64,193,568	41,319,944	64
EBITDA margin	%	8.39	5.64	67
Financial income/expense, net	EUR	-10,635,066	-9,123,747	86
Profit/Loss before tax	EUR	21,531,344	-2,099,780	-
Net profit	EUR	17,127,530	739,449	4

EBIT and EBIT margin

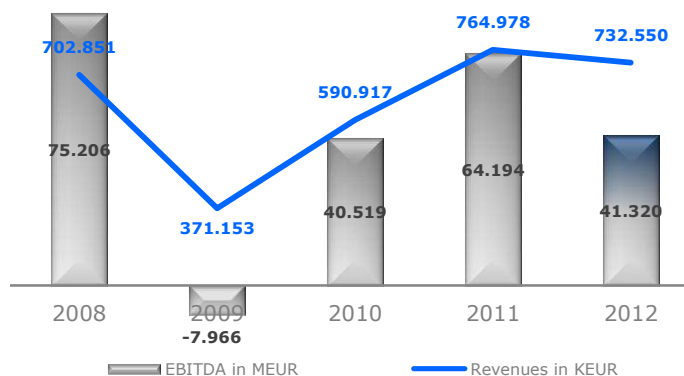


Apart from the higher prices of energy-generating sources, what affected profit more than anything else was the closing of scissors between sales and purchasing prices, which caused a revenue loss to the amount of EUR 20.5 million. We were able to keep labour costs at the same level as in 2011 even though we increased the salary twice, by one and two percent respectively, but we decreased the number of employees by 2.2% on average.

The EBITDA margin achieved in 2012 is at about the same level as the average margin of the last 5 years (5.89%).

EBITDA is one of the SIJ Group's key indicators, which shows our investment capability and capacity to meet our financial, mostly investment related, liabilities.

EBITDA and Revenues



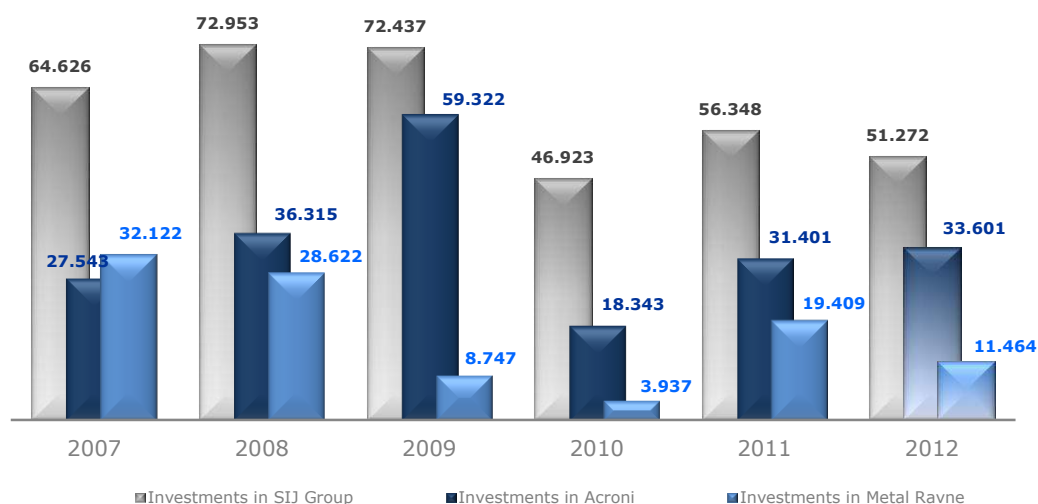
FINANCIAL POSITION

ASSETS	31 Dec. 2011	31 Dec. 2012	EQUITY AND LIABILITIES	31 Dec. 2011	31 Dec. 2012
TOTAL	761,932,114	763,574,012	TOTAL	761,932,114	763,574,012
Non-current assets	403,682,707	422,058,676	Equity	331,297,201	328,003,560
Tangible fixed assets	372,797,060	386,086,823	Share capital	145,266,066	145,266,066
			Retained earnings	172,372,644	168,100,672
Current assets	358,249,407	341,515,336	Liabilities	430,634,913	435,570,452
Inventories	161,511,027	155,184,341	Financial liabilities	245,222,794	254,263,693
Operating receivables	156,295,555	146,510,856	Operating liabilities	165,895,517	163,625,570
Cash and cash equivalents	24,844,734	26,922,115			
Other assets	46,483,738	48,869,877	Other liabilities	33,175,093	32,318,011

With regard to assets, in 2012 we increased tangible fixed assets and intangible assets by EUR 15.3 million through investments. We increased our financial debt by approximately EUR 9 million, and we also released EUR 13.8 million of assets through improved controls over working capital.

INVESTMENTS

Investments in MEUR



In 2012 great progress was made in the field of investments. The steel industry is one that needs to follow the development of technology in the leading fields and support customers' demands. We would especially like to remain a reliable supplier to the car industry, aviation, the energy sector and petro chemistry. It is exactly the development of these leading industries that Metal Ravne has been following with most of its investments

The development of new kinds of steel and products keeps us in the market and enables us to increase our production, and consequently our sales. In Europe we are best known as the owner of Acroni Jesenice, a company providing European markets with one third of all quarto plates. To further improve this result, the company continued implementing its strategy of investing in the production of quarto plates.

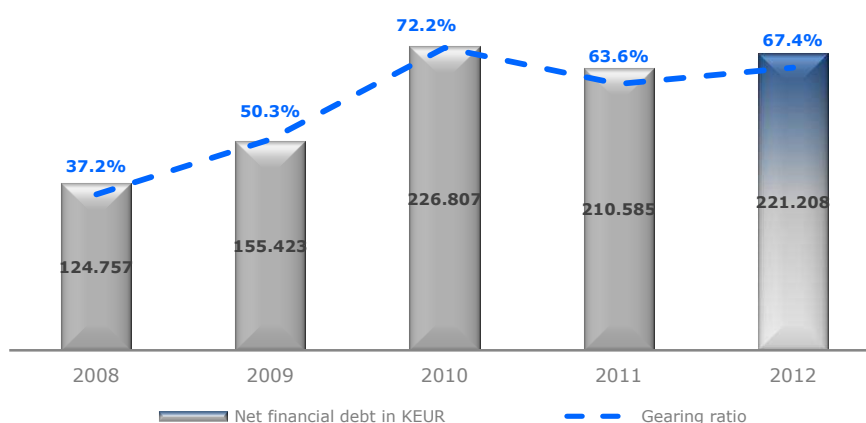
Most of the projects were carried out in our core companies, in particular in the two steel companies, Acroni and Metal Ravne.

The share of investments in sales revenues during the period from 2007 to 2011 was about 10.9%. Last year we made 7% worth of investments. The total value of the projects amounted to EUR 51.3 million, the largest share of which was invested in the two steel companies: 87.9% or EUR 45.1 million. For more on investments, see the section: INVESTMENTS AND DEVELOPMENT.

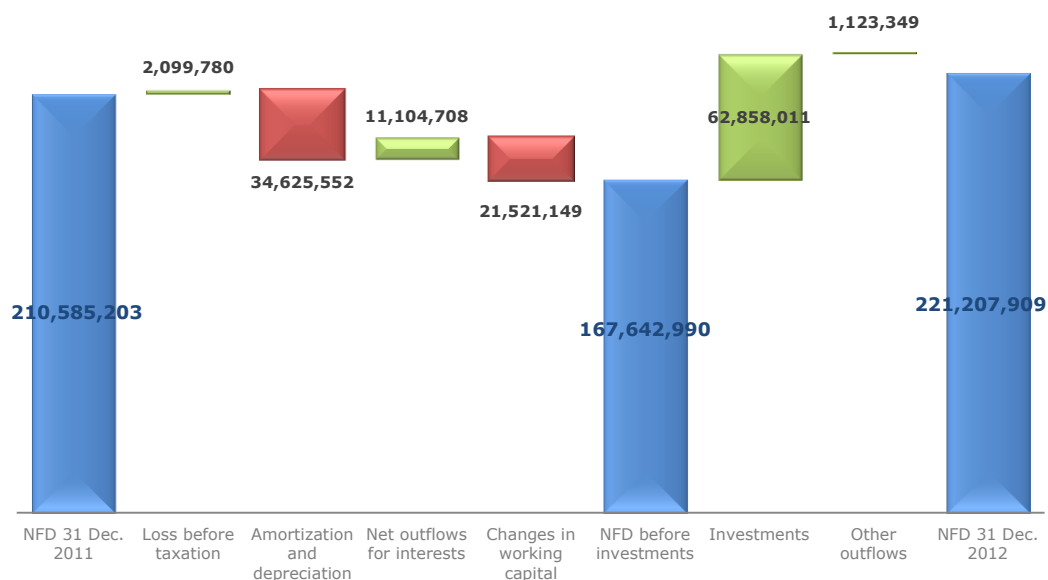
NET FINANCIAL DEBT

Considering the amount of investments over the last few years, net financial debt (NFD) remains within manageable limits. Neither does the leverage ratio⁵ exceed that achieved in 2010. Our goal is still to decrease our exposure to financial stability risks, which is especially important at this time of economic instability in our most relevant markets.

NFD and Gearing ratio



Net Financial Debt



⁵ The leverage ratio is gearing ratio = NFD/equity

WORKING CAPITAL

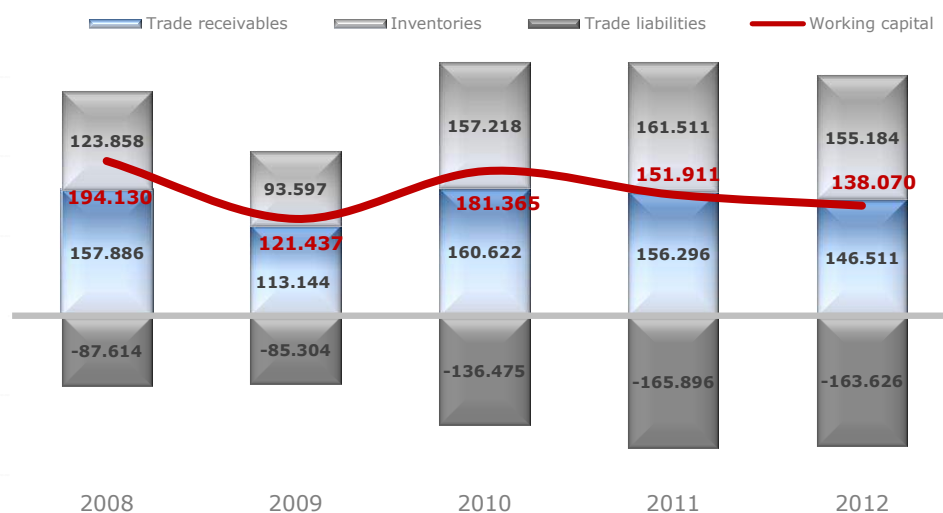
A lot of our time in 2012 was dedicated to the management of working capital, which a priority in all the companies of the Group.

We achieved good results since we had been decreasing the amount throughout the year. One of our most notable achievements in these difficult financial times was the collection of receivables and the decrease of inventories without losing our good credit rating from our business partners. Due to improved working capital turnover we have saved EUR 10 million.

**9.1% decrease of
Working capital
= -13.8 MEUR**

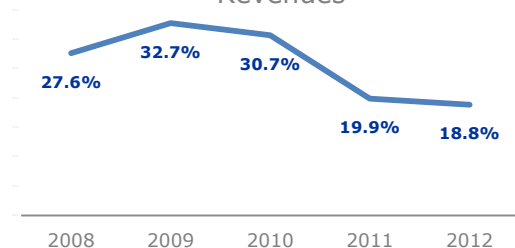
Trade receivables	-9.8 MEUR
Inventories	-6.3 MEUR
Trade liabilities	-2.3 MEUR

Working Capital in KEUR



Part of the investments was financed by amortization/depreciation (67.5%), part by working capital (26.7%), and the remaining part by borrowing.

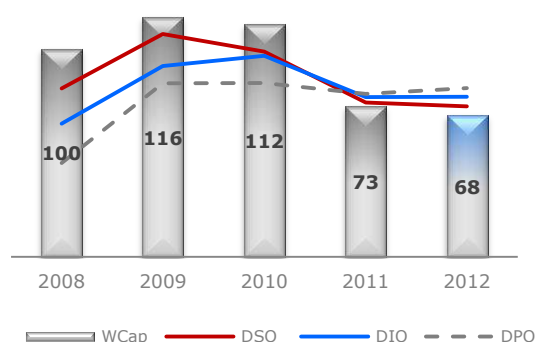
Share of Working Capital in Revenues



We have been reducing the share of working capital since 2009 and thus obtaining our own financial resources for operations as well as investments.

Days of Turnover

	receivables	inventories	liabilities	working capital
2008	81	64	45	100
2009	108	92	84	116
2010	99	97	84	112
2011	74	77	79	73
2012	73	77	81	68



OPERATION BY BUSINESS AREAS

CORE COMPANIES

The core companies constitute the base of our operations, and their share in the sales of the whole Group amounts to 86%. The core of the Group is the two steel companies; Acroni produces products from the flat steel program, and Metal Ravne from the long steel program.

The companies constituting the core of operations are also holders of trademarks (Acroni, Metal Ravne, Ravne Knives, Elektrode Jesenice).

The products of the steel companies are marketed from a group of steel centres located in our key European markets to ensure the end customers receive the best and fastest service possible.

STEEL PRODUCERS

Steel industry		2010	2011	2012	12/11
Revenues	EUR	497,653,744	605,177,801	594,974,979	98
EBITDA	EUR	38,105,679	54,214,897	34,543,063	64
EBITDA margin	in %	7.66	8.96	5.81	65
EBIT margin	in %	2.38	4.56	0.78	17
Net profit	EUR	5,236,158	15,968,691	534,630	3
Average number of employees		2,402	2,333	2,240	96
NFD	EUR	200,527,735	173,438,931	171,839,150	99
NFD/EBITDA		5.26	3.20	4.97	156

ACRONI, D. O. O. JESENICE

The company's production program consists of flat steel products:

- ❖ stainless steels
 - ❖ electrical steel plates
 - ❖ structural steels
- 
- ❖ special steels
 - ❖ cold rolled profiles

Acroni maintained its trend of growth on the European market, since the share of stainless steel quarto plates in particular has been increasing: the official data for 2011 show that Acroni has a 23% share of stainless steel quarto plates, and a 5.9% share of electrical steel on the European market.

The data for 2012 are unofficial, but show that Acroni increased its share of both stainless steel quarto plates and **electrical steel**.

in KEUR	2011	2012
Revenues	437,252	432,348
EBITDA	32,500	20,335
EBITDA margin	7.43	4.70
Average number of employees	1,344	1,254



METAL RAVNE, D. O. O.

The company's production program consists of:

- ❖ unalloyed structural steel
 - ❖ alloyed structural steel
 - ❖ low-alloy tool steel
 - ❖ high-alloy cold-work tool steel
- 
- ❖ special steels
 - ❖ high-alloy hot-work tool steel
 - ❖ high-speed cutting steels

The market share of Metal Ravne in the sales of tool steels on European markets increased in 2012. We have the largest shares in the Italian, Spanish and German markets.

in KEUR	2011	2012
Revenues	167,926	162.627
EBITDA	21,715	14,208
EBITDA margin	12.93	8.74
Average number of employees	989	986



OTHER CORE COMPANIES

Other core companies		2010	2011	2012	12/11
Revenues	EUR	35,246,768	43,241,392	44,292,526	102
EBITDA	EUR	407,444	2,731,187	2,276,534	83
EBITDA margin	in %	1.16	6.32	5.14	81
EBIT	EUR	-884,906	1,409,604	921,529	65
EBIT margin	in %	-2.51	3.26	2.08	64
Net profit/Loss	EUR	-674,851	1,286,103	848,224	66.0
ROS	in %	-1.91	2.97	1.92	64
Average number of employees		596	592	602	102
NFD	EUR	-244,282	-1,555,177	-2,871,224	185
NFD/EBITDA		-0.60	-0.57	-1.26	222

RAVNE KNIVES, D. O. O.

The company's production program consists of:

- ❖ knives for metal
- ❖ knives for wood



- ❖ knives for recycling and plastics
- ❖ knives for paper industry

in KEUR	2011	2012
Revenues	16,340	16,662
EBITDA	1,877	1,547
EBITDA margin	11.49	9.28
Average number of employees	195	197



ELEKTRODE, D. O. O. JESENICE

elektrode jesenice

The company's production program consists of:

- ❖ coated electrodes for welding and cladding
- ❖ welding wires for MIG and MAG welding
- ❖ welding rods
- ❖ flux cored wires
- ❖ welding fluxes and wires for EPP welding

in KEUR	2011	2012
Revenues	16.400	17.862
EBITDA	383	481
EBITDA margin	2,34	2,69
Average number of employees	171	177



SUZ, D. O. O. JESENICE

The company's production program consists of:

- ❖ drawn and ground steel
- ❖ cold formed profiles
- ❖ machining – products to order



in KEUR	2011	2012
Revenues	7,855	6,979
EBITDA	407	192
EBITDA margin	5.18	2.75
Average number of employees	129	126



SCRAP STEEL COLLECTION

This is managed by Odpad, d. o. o., the owner of Dankor, d. o. o. from Osijek, Croatia, and Metal-Eko Sistem from Jagodina, Serbia.

SIJ Group's strategy includes, among other things, scrap steel supply through its own network of collectors and processors of scrap steel. The purchase of high quality scrap steel has become of key importance in the time where there is a paucity of scrap steel on the market, and represents the basis of a direct influence on business economics. These companies carry out acquisition, collection, sorting, processing, cutting and baling of scrap steel.

Scrap steel collection		2011	2012 ⁶	12/11
Sales	t	155,000	131,381	85
Revenues	EUR	87,023,262	91,058,495	105
EBITDA	EUR	2,059,471	1,643,553	80
EBITDA margin	in %	2.37	1.80	76
EBIT margin	in %	1.74	1.29	74
Net profit	EUR	406,664	157,787	39
Average number of employees		46	59	128
NFD	EUR	12,557,942	15,303,198	122
NFD/EBITDA		6.10	9.31	153

STEEL CENTRES

The purpose of the centres is to support and promote sales within the companies of the Group. The location of our steel centres is selected based on the proximity of our end customers. We acquired all the steel centres during the period between 2008 and 2010. The centres sell the products of our core companies, for which they offer additional services of cutting using different techniques: shears, saws, plasma and lasers, as well as transportation to the end customer.

RAVNE STEEL CENTER, D. O. O.

The company's sales program mainly consists of the products produced by Metal Ravne:

- ❖ tool steels
- ❖ steel for plastics
- ❖ structural steels
- ❖ trading with other steels

⁶ Data include Metal Eko Sistem, a company that has been a part of the Group since 1 September 2012

NIRO WENDEN GMBH, CUTTING AND SURFACE TECHNOLOGY, WENDEN, GERMANY

The company's sales program mainly consists of the products produced by Acroni, namely stainless steel quarto plates, additionally processed by:

- ❖ laser processing
- ❖ plasma processing
- ❖ mechanical cutting
- ❖ water jet cutting

SIDERTOCE S.P.A., GRAVELLONA TOCE (VB), ITALY

The main activity is wholesale trading with metals. The company's sales program mostly consists of the mechanical cutting of steels from the program of Metal Ravne:

- ❖ tool steels
- ❖ low-alloy tool steels
- ❖ structural steels

GRIFFON & ROMANO S.P.A, CORSICO, ITALY

The main activity is wholesale trading with metals.

The sales program of the company includes sales of:

- ❖ plasma processed steels
- ❖ mechanical sawing

and of products from the program of the company Acroni

- ❖ quarto plates
- ❖ cold-rolled strips
- ❖ hot-rolled strips

Steel centres		2010 ⁷	2011 ⁸	2012 ⁹	12/11
Revenues	EUR	77,890,713	106,251,573	100,401,670	94
EBITDA	EUR	3,774,188	3,888,660	2,787,131	72
EBITDA margin	in %	4.85	3.66	2.78	76
EBIT margin	in %	2.52	2.46	1.54	63
Net profit/Loss	EUR	-751,010	872,962	58,789	7
Average number of employees		84	153	161	105
NFD	EUR	33,078,050	38,266,223	36,075,449	94
NFD/EBITDA		8.76	9.84	12.94	132

SALES NETWORK

In 2012, this group shrunk; only the company in the United States remains in active operation. In the past, after the collapse of the joint Yugoslavian market, this group of companies was of key importance for the launching of our products on foreign markets. Today it has lost its role as an intermediary due to the elimination of borders within the single European market, so we started closing these companies down during the 2011 and 2012: the first one to be liquidised was Iuene Stahl from Pliberk, followed at the beginning of 2013 by Acroni Italia and Acroni Deutschland.

The only company to keep its role is KOPO International, covering the far American market. Its main activities so far have included the sales of tool and special steels produced by Metal, but in the past two years these have been increased by the addition of Acroni's steels.

KOPO INTERNATIONAL INC., NEW JERSEY, USA

The main activity is wholesale trading with metals.

The company's sales program mainly consists of products produced by Metal Ravne:

- ❖ tool steels
- ❖ steel for plastics
- ❖ structural steels
- ❖ trading with other steels

The table below includes all the above-mentioned companies up to 2012.

⁷ The data include Niro Wenden, a company that has been a part of the Group since 1 April 2010, Sidertocce and SMG a part of the Group since 1 July 2010, Griffon&Romano, Inoxcut, Inoxpoint a part of the Group since 1 September 2010.

⁸ The data include SIJ SP, a company that has been a part of the Group since 26 July 2011.

⁹ In 2012, insolvency procedure was initiated for SMG Edlestahl; included are the data for the 1st half of the year

Sales network		2010	2011	2012 ¹⁰	12/11
Revenues	EUR	43,157,162	59,841,985	48,080,211	80
EBITDA	EUR	1,420,345	1,564,944	1,452,783	93
EBITDA margin	in %	3.29	2.62	3.02	116
EBIT margin	in %	3.20	2.55	2.95	116
Net profit	EUR	968,179	915,762	786,801	86
Average number of employees		18	20	12	60
NFD	EUR	126,832	735,688	1,621,391	220
NFD/EBITDA		0.09	0.47	1.12	237

OTHER COMPANIES

Other companies are wide-ranging in terms of their main activities: from the production of metallurgic machines and devices to the production of timber products, graphics and printing, the training of people with disabilities, and various services (dealing in real estate, business and management consulting).

SIJ – SLOVENIAN STEEL GROUP, D. D.

SIJ, d. d. (the short form of the name) is the controlling company of SIJ Group. Apart from managing the companies of the Group, its main role is the implementation of certain strategic functions for the needs of the companies of the Group:

- ❖ strategic sales
- ❖ strategic purchase
- ❖ strategic development and investments
- ❖ strategic financing
- ❖ information system implementation
- ❖ controlling and planning
- ❖ accounting policies

¹⁰ The data for 2012 excludes results of Iuenna Stahl, whereas the only results included for SMG are those for the first half of the year

SERPA INŽENIRING, PROIZVODNJA, DIAGNOSTICIRANJE IN OBNOVA STROJEV D. O. O., RAVNE NA KOROŠKEM

Main activity: production of metallurgic machines.

Other relevant activities include:

- ❖ maintenance of
 - machine tools
 - bridge elevators
 - metallurgic lines
 - hydraulic equipment
- ❖ production of various spare parts for metallurgic equipment and machine tools
- ❖ mechanical processing of heavy forgings and other products not exceeding 40 tonnes

The company's sales program mainly consists of products manufactured specifically to the customer's order and specifications.

ZIP CENTER, D. O. O. RAVNE

This is a company for the disabled, and its main activity is the production of furniture.

The company's production program consists of:

- ❖ flat carpentry program
- ❖ hardwood program
- ❖ printing and publishing
- ❖ cleaning and landscape services

ŽELEZARNA JESENICE, D. O. O. AND ŽIČNA CELJE, D. O. O.

The main activity of both companies is dealing in their own real estate.

Other more relevant activities include:

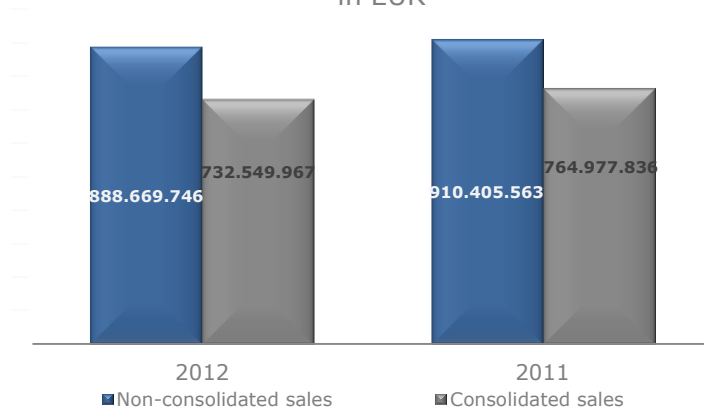
- ❖ renting out their own real estate,
- ❖ renting out office and computer equipment,
- ❖ renting out other machines and equipment,
- ❖ business and management consulting.

SIJ OBDELAVA JEKLA, D. O. O.

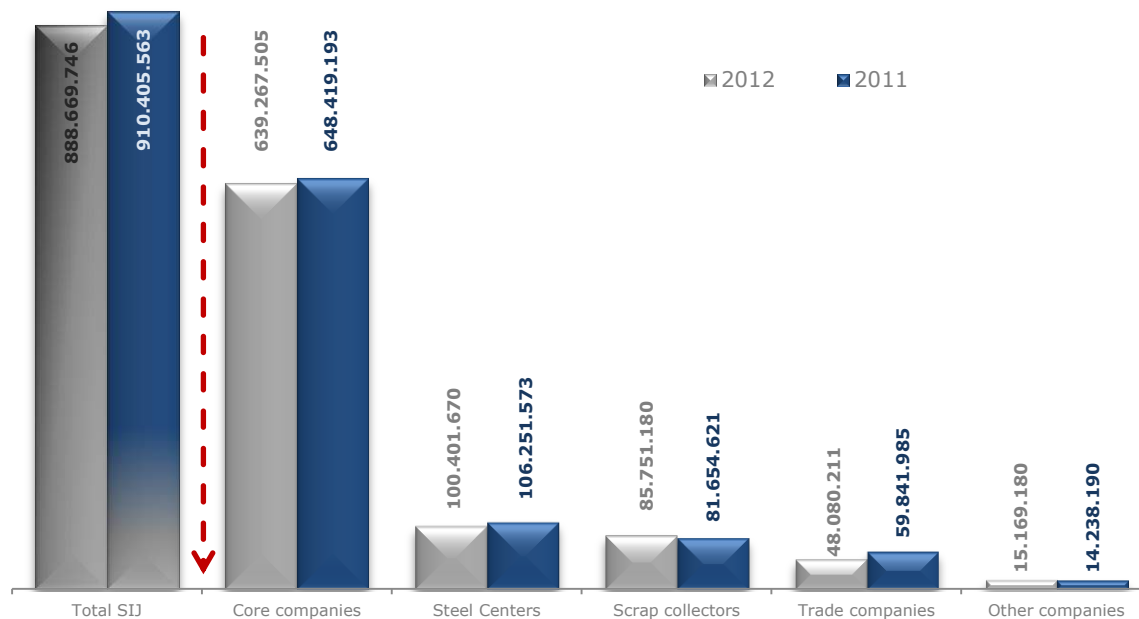
The company's main activities include business and management consulting, and trading with steel. Its most important activity is development of the market and sales network with the emphasis on coordination of marketing and production activities of the steel companies.

Other companies		2010	2011	2012	12/11
Revenues	EUR	11,608,870	14,238,190	15,169,180	107
EBITDA	EUR	9,768,343	1,161,264	11,014,256	948
EBITDA margin	in %	84.15	8.16	72.61	890
EBIT margin	in %	-2.51	3.26	2.08	197
Net profit	EUR	10,153,435	827,274	11,422,883	1381
Average number of employees		179	174	177	102
NFD	EUR	-17,644,717	-14,810,178	4,383,838	-
NFD/EBITDA		-1.81	-12.75	0.40	-

BUSINESS AREAS

Consolidated and Non-Consolidated Sales
in EUR

The sales share performed within the SIJ Group increased from 16.0 to 17.6% in 2012. Those that contributed most to the change were the steel centres, although their sales outside the Group decreased by 6% in 2012.

Non-Consolidated Sales in Business Divisions
in EUR

INVESTMENTS AND DEVELOPMENT

INVESTMENTS

After numerous phases of restructuring experienced during the years following Slovenia's Independence, in 2006 we began a major investment cycle that was further supported by the new owners in 2007, which enabled us to make investments in new equipment and the modernization of technological processes, from 2006 onward, to the amount of over EUR 406 million.

	2007	2008	2009	2010	2011	2012
Acroni	27,542,583	36,314,564	59,322,249	18,343,120	31,400,996	33,600,765
Metal Ravne	32,121,899	28,622,454	8,746,819	3,936,981	19,408,936	11,464,110
Ravne Knives	604,064	667,260	735,415	624,590	1,012,441	148,399
Elektrode	2,897,841	524,279	60,782	255,126	423,917	443,146
Other companies	1,459,670	1,533,571	1,388,989	2,904,866	4,101,978	3,382,231
<i>Acquisitions</i>	0	5,290,850	2,182,500	20,858,500	0	2,233,592
TOTAL	64,626,057	72,952,978	72,436,754	46,923,183	56,348,268	51,272,243

In 2012 we continued with the modernization of our equipment, with the main focus being on the plate mill renovation in Acroni's Hot Rolling Mill, and the new ESR furnace for slag re-melting in Metal Ravne.

ACRONI

Acroni completed the most important strategic investment of recent years, the replacement of a nearly 50-year-old [plate mill in the Hot Rolling Mill](#). The project, which is worth EUR 45.6 million, will be completely finished in the second half of 2013, and so far EUR 30.9 million have been spent. Its main benefits are the ability to enter new market segments, and to roll at lower tolerances, which means lower costs of raw materials and processing.



Continued investments are being made in the [expansion of production in the Quarto Plate Processing Plant](#) to include the production of 2500mm sheet metal, which will enable both a quantitative and qualitative leap; this will also contribute to the expansion of the production and sales program.

Both projects were earmarked EUR 17.5 million in total or 67% of total investment funds in 2012.

A new [machine for injecting](#) wire into the melt, and the fourth deposit site for ladles, were set up on the VOD machine in the Steel Plant. Following the implementation of the project the time to produce titanium alloy stainless charges was shortened. The main purpose of the project is to increase productivity of the Steel Plant.

A comprehensive [update of the IT system](#) is vital, especially for Acroni, Metal Ravne and SIJ, d. d. The aim of the project is to optimise processes and improve the effectiveness of the planning system to consequently shorten delivery times, as well as decrease inventories and optimise the sales range to achieve the highest profitability. The planned value of the project is EUR 4.5 million.

We have introduced already the [fourth Wellman furnace](#) of the heat treating line in the Quarto Plate Processing Plant with the goal of increasing the capacity of the existing line, which mostly manufactures stainless steel quarto plates.

METAL RAVNE

Metal Ravne has finished the strategic project [ESR III](#) and received a permit for trial operation. The [ESR re-melting technology in a protective atmosphere](#) eliminates the disadvantages of the current equipment and at the same time increases the dimensional range, which is of extreme importance for the further development of products on the 45/40MN press.



This investment enabled the dimension of the ESR ingot to be increased to Ø1,400mm (weight 45 tonnes), which complemented the already successfully implemented project of the forge for heavy forgings and consequently broadened our range in the demanding energy sector.

The new production capacities enable annual sales of up to 5,700 tonnes of products made from ESR steels; approximately EUR 15.7 million were spent over the multi-year project.

A [peeling machine](#) in the mechanical processing at the forge is in the process of installation: this project complements the production process of the forging machine, while the sale of mechanically processed products has ensured a higher added value. The new peeling machine enables us to ensure the long-term provision of reliable production capacity for peeling in dimensions ranging from Ø85 to Ø220mm with appropriate tolerances. The company allocated EUR 1.9 million for this project.

By purchasing a [new ultrasound device](#) at the testing line of steel drawing we will ensure a reliable material control system, thus enabling an increase in the share of orders with a higher added value for the energy sector and advancement in the aviation industry. We expect to produce approximately 100 tonnes of demanding products a month with this new equipment. The estimated value of the project was EUR 0.7 million.

The implementation of the [new dust extraction equipment](#) in the Steel Plant solved the environmental problems caused by excessive air emissions in the Steel Plant. The requirements for the implementation of the measures stemmed from the rehabilitation program and the environmental permit. The next phase of the project is planned to include the overhaul of the current de-dusting equipment. The estimated value of the project is EUR 0.9 million.

The [reconstruction of the hardening pool](#) as part of the continuous furnace no. 4 (Konti 4) was carried out in the profile rolling mill to increase production capacity for tempering, which represents 75 tonnes of products monthly. The possibility of process management enables the new technology to optimise and heat-treat even the more demanding steels. The value of the project was EUR 0.4 million.

RAVNE KNIVES

Ravne Knives planned and realised fewer investments in 2012 than in previous years; however, all the investments that were initiated were also completed and activated. All the completed investments were financed with their own resources and amounted to EUR 211,100.

Larger investments included: in IT an investment was made in [a new staff payment system](#), and the project was carried out in cooperation with the sister company Metal Ravne. Computer equipment was also updated.

A [single girder bridge crane](#) was replaced in the Hardening Plant department to comply with safety standards, and a [flexible jib crane](#) replaced the old crane which was decommissioned due to damaged bearing parts.

ELEKTRODE JESENICE

Among their larger projects, Elektrode Jesenice completed an investment in the [production of laser-welded filled wires](#) for quality filled wires with a high added value: the purchase value of the entire project was EUR 1.6 million, of which EUR 120,600 was paid in 2012.

Environmental investment – a [closed cooling system in the coating department](#) was installed, which provided a cooling arrangement in accordance with regulations. This has significantly decreased the pollution of and discharges into the running water, and eliminated the need to use flowing river water.

[Electrode closing device](#) – the old closing device was replaced with a new one.

Investment in the [IT system](#) is in progress and should be finished sometime during the second quarter of 2013, according to our business plan. This new investment will help us achieve a greater level of control over production costs and the determination of profitability of individual products and groups of products.

SUZ

The SUZ company started a new production program in 2012 in which it invested most of its resources. The investment in the **PA 30 lathe** is conditional upon the development of the new production program of machine processing for the production of special products with a higher added value at customer demand (spare parts, tools).

Also, a **new milling and drilling machine** was purchased as part of additional hardware for the development of the new production program of machine processing.

Smaller investments included: the **installation of new steering wheels** on the bridge crane, and **up-and-over doors** in the shipment department.

DEVELOPMENT

Apart from the constant equipment and technology updates, the development of new products and materials is one of the most relevant factors in the steel industry for maintaining competitiveness in the market. Fast technological advances lead to the occurrence of new market niches with new requirements for materials. New materials are usually developed in cooperation with the customer, who provides basic directions and takes part in the testing of produced materials.

DEVELOPMENT OF NEW PROGRAMS AND MATERIALS

- ❖ **Acroni** developed new stainless steel in cooperation with customers, namely corrosion resistant steel for the spraying of plastics and boiler steel plates.
- ❖ **Metal Ravne:** new products made from steel for the energy sector, from special structural steel for high temperatures, and from special structural steels for cementation and tempering, heat and mechanically treated cylinders and moulded forgings for the energy sector and other machine parts.
- ❖ **Ravne Knives** developed the production of knives for cutting steel sheets and knives for cutting profiles used in the rolling mills, i.e. products where a higher added value can be achieved.
- ❖ **Elektrode Jesenice** mainly focused on the testing of new kinds of raw materials, lowering of prices of products with new materials, and the improvement of the production process, while maintaining the standard quality of the products.

DEVELOPMENT OF NEW TECHNOLOGIES

- ❖ **Acroni** worked on a procedure for the production of clad plates and flat tool steel, and a new technology is also being developed for cleaning the surface of stainless steel plates which will be much more environmentally friendly.
- ❖ **Metal Ravne** worked on technology for the production of classic steels with an improved micro-cleanliness, developed and implemented a program for predicting the presence of hydrogen in the melt, based on the chemical composition of the steel, the time of degasification and the amount of moisture in the air, and in the forge developed new technology for forging ingots of the largest dimensions.
- ❖ **Ravne Knives** focused their technology mostly on relevant and commercially attractive products: knives for cutting steel sheets and holders for such knives used for cutting quarto plates in heavy rolling mills. Knives for profiles used for cutting various structural profiles, such as I, L and H profiles, are also very demanding as far as their form is concerned, and are becoming more widely used.

DEVELOPMENT OF BUSINESS INTELLIGENCE AND NEW IT SYSTEMS

- ❖ SIJ Group began implementing the introduction of a comprehensive integrated ERP IT system (beginning with Acroni, Metal Ravne and SIJ, d. d.). This system will connect all the vital areas of business and production into a single whole, which will also significantly contribute to connectivity and decision making within the entire group, following our goal of supporting decision making and management procedures.
- ❖ The system includes **integrated systems for the planning of sales, purchase and production, including optimizations of certain business functions, as well as the planning in the financial field** where solutions by Oracle are being introduced, namely VCP (Value Chain Planning) and Hyperion which, however, are being extensively altered to meet the particular requirements of the steel industry.

QUALITY MANAGEMENT SYSTEM

A quality standard is a certificate which is absolutely essential for any company with ambitious goals to operate and become one of the best in their field. It represents good business practice and is therefore helpful for organizations looking for the best possible policies to follow. The system is mainly focused on the efficiency of quality management in fulfilling requirements, and is meant for companies which want to control and continuously improve their operations accordingly. This certificate can be compared to a certificate of excellence, which guarantees to customers and other partners that they are working with a company which has established operating criteria in all areas of operation.

Our business group is able to identify customers' needs and to manage our business system by providing satisfaction to all the business parties involved. Fulfilling, identifying, and exceeding customers' expectations places us among the most reliable and capable suppliers of steel and steel products, which is confirmed by our operating results and market position of the Group. **All our employees are expected to constantly strive to improve the quality of our products.**

Also with regard to the quality management system, 2012 was important for the implementation of the new information system. We have established a system of complete energy consumption monitoring in



Acroni, for controlling the use of energy-generating sources and other media. At the beginning of 2011 this system was independently audited in accordance with the **EN 16001** standard and at the end of the year we began to improve it, so it will comply with the requirements of the **ISO 50001** standard.

Since 1995 the external audits of the management systems have been carried out by the certification company TÜV SÜD Management Service since 1995. Based on the positive results of the combined external audit in 2011, Acroni received the **ISO 9001** certificate for quality management systems for the sixth time, valid until 2014, and permission for further use of the certificates **ISO 14001** for the environmental management system, and **OHSAS 18001** for the occupational health and safety management system.

The company's laboratory operations are audited by Slovenska akreditacija (Slovenian Accreditation). In 2012 the accreditation of methods in the chemical and mechanical laboratories according to the **ISO 17025** standard, and the accreditation of the inspection body according to the **ISO 17020** standard, were audited and confirmed.

With regard to product certificates and the supplier's certification of capability, the company is being audited by the certification companies TÜV SÜD Industrie Service, Lloyd's Register, Germanischer Lloyd, Det Norske Veritas and Bureau Veritas.

Metal Ravne has an integrated quality management system which merges three certified management systems. The overall quality management system is the basis for all the systems, while each of them retains its field specificity. In addition, the company operates in accordance with the principles of the information security management system as per the **ISO 27001** standard, and the energy management system as per the **ISO 50001** standard, although Metal is not certified for these two standards. The

quality management system is based on a process approach and reflects the integration of four important elements, namely the management's responsibilities, the management of resources, the completion of products, and measurements, analysis and improvement.

Apart from the certified management systems, the company also has the following product certificates: TÜV SÜD Industrie Service, Lloyd's Register, Det Norske Veritas, ABS, Bureau Veritas Marine Division.

In 2012, Metal successfully underwent assessments from the following certification bodies and customers:

Bureau Veritas: ISO 9001:2008	control assessment
Bureau Veritas: ISO 14001:2004	control assessment
Bureau Veritas: OHSAS 18001:2007	certificate assessment
TÜV SÜD Industrie Service:	product certificate renewal
Lloyd's Register:	product certificate renewal
Det Norske Veritas:	product certificate renewal
Germanischer Lloyd:	product certificate renewal
Bureau Veritas Marine Division:	product certificate renewal

System **ISO 9001**, which has been applied at [Ravne Knives](#) since 1997, ensures better organization, correct recording, and appropriate management of all procedures. In 2012 the company once again successfully underwent the re-certificate assessment carried out by the certification company Bureau Veritas Certification. Assessments represent an opportunity for new ideas and improvements, and the recommendations by experienced assessors provide the company with directions for future work.

[Elektrode](#) has been successfully developing and complementing the **ISO 9001** quality management system since it started its operations, and obtained its first certificate in 1998.

In 2012, the certification company Bureau Veritas carried out a re-certification assessment and confirmed the quality management system as compliant with ISO 9001:2008.



Industrie Service

SUZ, Serpa and ZIP Centre also control and carry out all their processes according to the criteria of ISO 9001:2008, thus increasing the value of their activities and improving their efficiency. The use of quality systems in the companies leads to better business results, ensures customer satisfaction and maintains a competitive advantage.

RISKS

We are aware of the fact that we operate in an unstable business environment and that efficient risk management is an important factor in achieving success; therefore our risk management policy is integrated both in the process of strategic and operational planning and in the direct operational decision-making process. This is the only way to ensure the foundation of safe and profitable operation.

Due to its broad, branched and complementary operations, and the very nature of the industry, SIJ Group is quite exposed to risks, which we therefore try to detect, assess and find an appropriate means of managing as soon as possible. It is this efficient reaction that has enabled us to successfully manage, decrease, and sometimes even avoid the risks. A larger number of employees have been included in the management process in the individual companies of the Group to ensure maximum efficiency.

The continuation of the economic recession and the related financial crisis also had a strong impact on the operations of all the companies within SIJ Group in 2012. We therefore decided to enhance our focus on risk management.

There are three groups of risk;

- ❖ Strategic and operating risks are associated with the ability to manage operating processes, the possibility of generating operating revenues, and the ability to maintain the value of operating assets. They include external risks connected to changes in the macroeconomic environment, the operating conditions on key markets, sales risks and competitiveness in sales of products and services, purchase risks, and the unpredictability of purchase markets.
- ❖ Financial risks represent the probability that loss is created due to certain factors in business or investments. They can also be defined as risks originating from financial transactions. We distinguish between risks of imbalanced inflows and outflows (liquidity risks), risks of change in financial market factors (interest rates, foreign exchange risks) and solvency risks.
- ❖ Other risks are connected with the design, implementation and control of operating processes and activities within the company.

STRATEGIC AND OPERATING RISKS

These risks mostly depend on the range of the Group's programs, the market environment, and strategic investments associated with the agreed market orientation. Strategic risks are associated with:

- ❖ the implementation of our development strategy
- ❖ global market trends

Operating risks are linked to the business environment, the behaviour and habits of customers, and the economic conditions in which SIJ Group and their individual segments operate. They arise in the following areas:

- ❖ excessive production capacity in the steel market
- ❖ a predominant focus on the European market
- ❖ the expansion of Asian steel manufacturers
- ❖ a weak market situation

Strategic and Operating Risks

Area of Risk	Description of Risk	Means of Management	Exposure
Development and Research	Risks related to the realization of our development strategy.	Careful planning of development projects, quality reporting and adequate control.	Moderate
Sales and Marketing	Decreased amount of orders and loss of customers. Poor assessment of trends on the steel market and consequently the incorrect determination of goals.	Developing a system to obtain key information from the market, measuring customer satisfaction, careful planning of development projects, the timely resolution of supplier-customer problems, providing customers with quality service, etc.	High
Purchase of Raw Materials and Energy	Purchase of quality and affordable raw materials and energy, the risk of untimely supply, changes of purchasing prices.	Careful planning of the supply chain, negotiation and searching for suitable suppliers.	Moderate
Investment Projects	Risk of making the wrong decision on investment in production and other capacity, and risk of the implementation process going astray.	Risk is managed by a careful planning of project implementation, the systematic selection of contractors, and constant control of implementation. Before any decision is made an active role of marketing and sales is very important.	Moderate
Quality Assurance	Appropriate quality of input materials for the production process, appropriate implementation of development and production processes, and quality of end products.	Upgrading certified management systems and following changes in the quality system, careful implementation of quality control in all development and production processes.	Moderate

DEVELOPMENT AND RESEARCH

Since our goal is to produce quality products within the SIJ Group, we are constantly investing in new demanding technologies, developing new kinds of steel and products, and strengthening our relationships with the end customers, whose requests set the direction of our development path. Higher added value is achieved by optimizing costs, especially by new, cheaper technological processes in the production lines; increased productivity; and automation and computerization, as well as maximum efficiency of work processes. We pay special attention to research and development, constantly increase our technological capability, and make many investments in the improvement of the working processes; we have also introduced a common share-point portal which required staff enhancement in the development

departments. We plan to complete our investment in the IT technology in 2013, thereby introducing into the production of our two largest companies a new business IT system that will be unified at the Group level.

SALES RISKS

SIJ Group makes more than 85% of its sales abroad, which means it operates in different macroeconomic conditions and different competitive environments, thus becoming exposed to different sales and marketing risks. For this reason we try to react to changed operating conditions as soon as possible, by constantly adjusting our sales and marketing activities to the market conditions. We manage risk by expanding our sales network, dispersing our sales channels and developing new products that enable us to enter new markets and industries; in addition, we have paid special attention to the risk of conducting business with individual customers, especially the risk of their insolvency, risks related to payment deadlines, and other risks connected to the fulfilment of contractual provisions.

PURCHASING RISKS

Purchasing risks arise due to price changes in purchased raw materials and services, which are subject to the constant changes in the global market. The greatest and most unpredictable are changes in the prices of input material, since these prices are formed on the raw material exchange. Considering that the costs of input material constitute a high percentage in the structure of the company's business costs, even the slightest change can have a great impact. Decisions on buying and the purchasing timetable are also risky, since we cannot operate without stock due to the long supply deadline of steel manufacturers. This type of risk increases the time between the purchase and supply of any given material, and the sale of the product (which can be as much as three to five months), during which period steel prices change on a monthly basis. Therefore, the company orders at the prices valid on the day of ordering, pays at the prices valid on the day of supply, while selling most of the products at fixed prices valid on the day of concluding the sale.

There are also risks concerning the quality of purchased materials and the shortage of material on the market, due to economic or political reasons (e.g. export restrictions) or supplier monopoly, or because of problems in the delivery of goods due to e.g. transport route congestions in the event of a natural disaster. We lower these risks by constantly controlling the input materials, deepening long-term partnerships with globally competitive suppliers, searching for alternative materials, testing new materials and suppliers, dispersing purchases of strategic materials across several suppliers, and by monitoring and predicting market changes.

Risks in the field of energy-generating sources (gas and electricity) are important due to the expected trend of growth in prices, the objective limitation of sources and the fact that the prices of energy-generating sources in Slovenia are much higher than those paid by the industry in Western Europe. In the field of purchase and energy-generating sources we therefore conclude, whenever possible, long-term procurement contracts with fixed prices, balance the structure of consumption of individual energy-generating sources, and implement constant measures to optimise consumption and consequently the costs.

INVESTMENT RISK

Investment risks are associated with achieving the goals of planned investments, the successful realization of investments in new product development, and the implementation of new technologies. During the elaboration phase of a conceptual investment project, we try to find the most accurate assessment of the market situation and opportunities according to the available data. Furthermore, we try to evaluate the expected economic impacts, the timeline of the implementation and start-up of the investment. The project manager, together with the project team, is actively involved in all phases, in accordance with his responsibilities.

We limit this type of risk by continually improving the quality of preparation and implementation of investment projects, by inspecting the legal and financial compliance of the contractual documentation, and by checking the justification of any potential changes as well as their influence on costs and future plans.

In 2012 we continued the implementation of strategic investments whose orientation was confirmed in the sales of quarto plates and the forging program, according to market trends.

QUALITY ASSURANCE

We manage the risks concerning the quality of our products by the technical control of input raw materials and other materials, as well as by output control of the products, and also by certifying products with the relevant organizations in charge of such quality control.

Our customers can be sure that our products are appropriately certified. We use external (carried out by our partners) and internal assessments, along with audits, to regularly and systematically check the performance of the quality system in all working processes; at the same time we implement the required improvements by which we are continuously upgrading the quality system and thus effectively managing quality assurance related risks.

FINANCIAL RISKS

Financial risks include liquidity risk, credit risk, interest rate risk, foreign exchange risk and the risk of banks not approving the renewal of loans on their maturity.

For even better management of financial risk we try to reduce the negative effects of financial instability of our customers, and of price and currency trends on operating results, cash flow and the financial position of the Group and its individual companies.

Despite the stringent conditions on the financial markets and the still incomplete recovery of the steel market, we were able to successfully control financial risk in 2012.

Financial Risks

Area of Risk	Description of Risk	Means of Management	Exposure
Foreign Exchange Risk	Possibility of loss due to unfavourable changes in foreign currencies.	Monitoring financial markets and use of appropriate financial instruments.	Low
Interest Rate Risk	Risk of loss due to unfavourable changes in interest rates.	Monitoring financial markets and changes in interest rates.	Low
Solvency Risks	Lack of funds for the payment of financial and operating liabilities.	Long term and short term planning of needs for liquidity funds.	Moderate
Credit Risk	Risk due to non-paying customers.	Active receivables management, monitoring of credit ratings, insuring operating receivables.	Moderate

FOREIGN EXCHANGE RISK

SIJ Group makes its purchases and sales on the global market, and is therefore also exposed to the risk of unfavourable ratios between currencies, especially the EUR/USD exchange ratio. We constantly monitor our exposure to the US dollar and regulate the risk by coordinating US dollar sales and purchases.

INTEREST RATE RISK

The interest rate risk in the Group arises mostly from the fact that the interest rate for the major part of current and non-current financial liabilities is comprised of a variable Euribor part and a fixed part, which represents the net interest margin.

In 2012, the 6 month Euribor interest rate decreased from 1.606% to 0.320%. The average Euribor amounted to 0.828 in 2012, therefore the level of risk is low, due to this extremely low value; however, we once again witnessed an increase in interest margins since these are very beneficial for the banks who make profit out of them, using it to cover, more or less successfully, obligatory write-offs of bad credits. Nevertheless, the nominal interest rates were still relatively low because of the low EURIBOR.

SOLVENCY RISKS

The conditions on the financial and money markets impact the continuously worsening difficulty of acquiring funds, which consequently impacts the increase of solvency related risks, since most companies have limited access to additional funds. The risk arises precisely from the lack of funds and their equivalents which enable the fulfilment of liabilities. The Group therefore practices a conservative financial policy, since we carefully plan the cash flow of the Group and its companies for several months in advance; monitor the actual inflows and outflows on a daily basis, thus trying to maintain a positive cash flow; and at the same time use several instruments intended to safeguard both short-term liquidity

and long-term solvency (dispersed resources, security deposits, short-term credits, bridging loans, approved overdrafts, etc.). We carefully monitor the movement of receivables and regularly adopt measures to deal with non-paying customers.

All these insecurities in the financial sector make access to long-term loans very difficult, and therefore interest rates tend to be unfavourable. The ratio of long-term vs. short-term financial liabilities in SIJ Group has improved, and on 31 December 2012 amounted to 35.7:64.3 (compared to 28.1:71.9 on 31 December 2011). We regularly negotiate with banks to extend existing current loans, and major investments are financed by non-current assets.

CREDIT RISK

In the business world all companies are exposed to credit risk, as most companies do not receive immediate payment for their products and services, but only after a certain time period agreed in advance. This type of transaction is also called credit. During this period a company which has delivered products or provided services assumes the credit risk, i.e. the possibility that the delivered products or provided services will not be paid for. For this reason exposure to credit risk related to customers is limited by various activities: the control of exposure to individual business partners; the continuous monitoring of wholesale customers; the sale of goods on condition of the receipt of appropriate collateral instruments (advance payments, warranty for payment of a bill of exchange, letters of credit, bank guarantees); the insurance of receivables with insurance companies; and the continual collection of receivables.

Recently this risk has increased due to the compulsory composition of certain business partners. However our risk management strategy proved to be correct, and there were no major adjustments to the value of receivables this year. For these reasons we assess the credit risk as moderate.

OTHER RISKS

Other Risks

Area of Risk	Description of Risk	Means of Management	Exposure
Human Resources Risk	Risk related to the provision of qualified staff.	Systematic work with key staff, system of awards, continuous education.	Low
Information System	Risk of interference due to faults or out-of-date IT technology.	Regular maintenance, updating and upgrading of IT system.	Moderate
Property Protection	Risk of disposal and destruction of property.	Measures in accordance with fire safety, transaction of relevant insurances, physical protection of the property.	Moderate

Other Risks

Area of Risk	Description of Risk	Means of Management	Exposure
Environmental Protection	Risk of incidents harmful to the environment.	Preventive practices and internal procedures in the event of an incident.	Low

HUMAN RESOURCES RISK

The largest risks in the field of working with people originate from the need to provide appropriately qualified personnel for the current and future requirements of our operational processes. With regard to the provision of appropriate personnel in key positions, we need to continue with our policy of scholarships, in-service training and motivation of personnel by the acceptance of new challenges and the possibility of variable rewards. With clear goals, good mutual relationships and the establishment of a creative working environment, we set up conditions for the employment of the best personnel.

In addition, we are facing a deficiency of certain professions. There are not enough skilled metallurgy workers on the labour market, so we cooperate with the Ministry of Education, Science, Culture and Sport in the formation of educational programmes, from vocational schools to University study of metallurgy. Although the interest in study at technical faculties is in decline in general, we are trying to encourage appropriate candidates towards technical professions by offering them scholarships.

RISK ASSOCIATED WITH INFORMATION SYSTEM FUNCTIONING

The most important risks in the field of information technology are those of breakdown or malfunction in hardware, the local area network, the communications and system software, and risks associated with information system security.

We ensure that these risks are well managed by constantly monitoring them and immediately responding to any problems. Moreover, we have signed maintenance contracts with our suppliers, who ensure the continued operation of the system in the event of outages of any of its vital segments. The system itself is designed in such a way that these risks are essentially reduced (duplications of the most vital parts of the system, access to the Internet via two different providers, and the duplication of communication paths).

Special attention is given to eliminating the risks of unreliable and inadequate software. We intend to eliminate these risks entirely in the future and have already commenced a project to introduce a new business information system. All risks regarding the transition to the new system as well as risks associated with the project itself are being monitored and managed in accordance with the contractor's project methodology.

PROPERTY PROTECTION RISK

The business objects and equipment which allow us to perform our main activities are exposed to different property risks. Fire or damage could seriously jeopardize the company's operations. Serious equipment failure can also cause considerable material damage, and can result in a shortfall in production over a defined period. In order to at least partially nullify the impact of the main property risks, we have concluded property insurance contracts, the most important being fire insurance, breakdown insurance and insurance for business interruption due to an accident.

Property risk is also reduced by means of regular preventive maintenance in the production lines and a fast response time when breakdowns occur. In order to reduce the time needed to restart production, most of the purpose-made spare parts are in stock, and an emergency service is also in readiness.

Property risks also include liability risks, which have been insured by various forms of accountability insurance: general liability insurance, vehicle liability insurance and product liability insurance.

ENVIRONMENTAL PROTECTION RISK

It is our duty to minimise negative effects on the environment and take appropriate measures should they occur. We minimise the occurrence of incidents by systematically monitoring the impacts of the companies' operations on the environment with the use of modern technologies, technical measures, preventive checks and regular maintenance of equipment. To minimise the environmental risks, we already consider the effects on the environment in the planning phase, since most environmental effects caused by an individual production process can be foreseen as early as the planning phase. Minimising environmental risks is part of the companies' environmental management system according to ISO 14001.

BUSINESS PLANS AND GOALS FOR 2013

Although the expectations for 2013 vary, European analysts agree that the European Union cannot expect the crisis to end for at least another year. For 2013 we expect the business to improve comparing to 2012, as we expect the investments made in 2012–2013 will result in a 7.8% increase in income and a nearly 10% increase in quantities sold.

Despite the critical conditions, our plans for 2013 still include investments to the amount of EUR 40 million. No large projects are foreseen (apart from the expansion of the rolling program in Acroni), but rather several smaller investments for the elimination of bottlenecks or the replacement of out-of-date equipment, in addition to the investments in maintenance.

Our goal is to achieve an income to the amount of EUR 789 million, and we have also adopted various measures to lower costs and rationalise operations in order to minimise the gap between sales and costs.

We know our goals are optimistic, but we are determined to implement the adopted measures and thus realise the best operating results possible.

EVENTS FOLLOWING THE END OF THE FINANCIAL YEAR

After the end of the financial year, SIJ Group recorded the following important events:

- ❖ Acroni implemented the final phase of the most important strategic investment of recent years, the replacement of a nearly 50-year-old plate mill in the Hot Rolling Mill, which should be completely finished by the end of the first half of this year.
- ❖ At Metal Ravne, Borut Urnaut, B.Sc. in Metallurgy and Material Engineering, was appointed Executive Director of the strategically important Department for Development and Control.
- ❖ At the end of February Odpad has become a 51% owner of TOPMetal, d. o. o. Laktaši from Bosnia and Herzegovina.
- ❖ Serpa underwent its first control assessment for the ISO 9001:2008 standard in February.
- ❖ We decided to begin the liquidation procedure for Acroni Italia. Also, the liquidation procedure of Acroni Deutschland began upon the court order from 1 January 2013.
- ❖ We rescinded the contract on taking over CSM.
- ❖ The Higher Court in Ljubljana confirmed the decision of the District Court and ruled that SIJ, d. d. conclude two agreements on the transfer of 20% business shares in Ravne Knives and Metal Ravne. SIJ, d. d. initiated review proceedings since it did not agree with the decision and its explanation.



sij group

**SUSTAINABLE
DEVELOPMENT**

SUSTAINABLE DEVELOPMENT

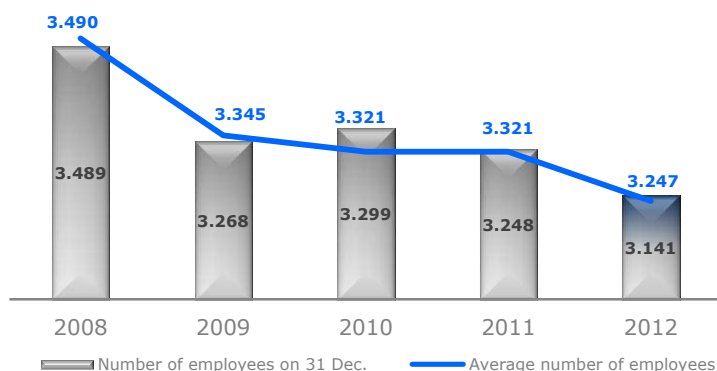
We understand social responsibility as a comprehensive, planned and long-term movement towards improving the quality of life of everyone who is directly or indirectly involved in the companies of the Group. The principles of sustainable development are integrated into our operations, products and services. Understanding and respecting mutual dependence in society, and taking into consideration how intertwined society is with the environment, we are focusing on creating a balance between management as a gainful activity, and social responsibility towards our employees and the public.

EMPLOYEES

At the end of 2012 SIJ Group had 3,141 employees, which means that the number of employees compared to the previous year decreased by 107 or 3.4%. The average number of employees in SIJ Group in 2012 was 3,247.

COMPANY	31 Dec. 2011	31 Dec. 2012
SIJ – Slovenian Steel Group, d. d.	33	43
Acroni	1,239	1,164
Metal Ravne	1,022	963
Ravne Knives	193	194
SUZ	125	121
Elektrode Jesenice	171	170
Železarna Jesenice	1	1
ZIP Centre	98	110
Serpa	140	142
Žična Celje	0	0
Odpad Pivka	28	27
Dankor	18	19
Ravne Steel Center	20	24
Acroni Deutschland	5	1
Acroni Italia	6	6
Iuenna	6	0
KOPO International	3	2
NIRO Wenden	49	49
Sidertoce	25	24
SMG	22	0
Skupina Griffon & Romano	43	44
SIJ Obdelava Jekla	1	1
Metal-Eko Sistem	-	36
TOTAL	3,248	3,141

Employees



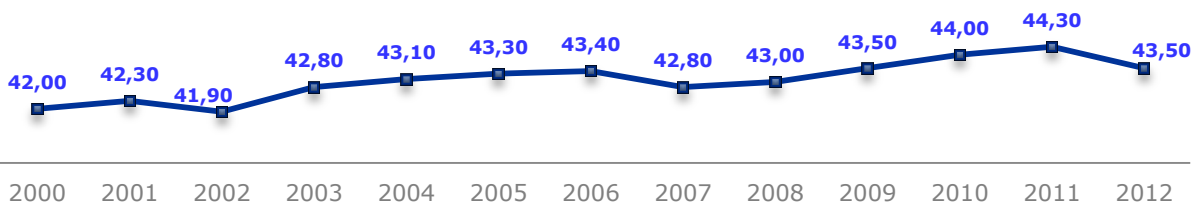
The reduction in the number of employees is mostly (48.5%) due to retirement, termination of the employment relationship on other grounds, or the termination of fixed-term contracts.

EMPLOYEE STRUCTURE

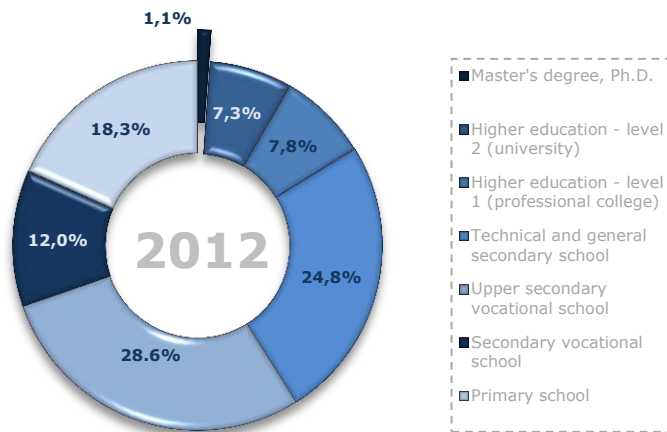
There are 550 women employed in SIJ Group, which represents 17.5% of all employees, and 2,591 men, which represents 82.5% of all employees. Compared to the previous year, the number of women employed decreased by 26 or 4.7%, and the number of men by 79 or 3.1%.

The average age of employees is 43.5 years. In the previous four years the average age increased by 1.3 years, whereas in 2012 it decreased by 0.8 years.

Average Age of Employees



The educational profile has been pretty much the same for the past several years. The most significant change has been a decrease in the number of employees with only primary education, namely by 1.6%, whereas the share of employees with level 1 higher education increased by 1.1%.



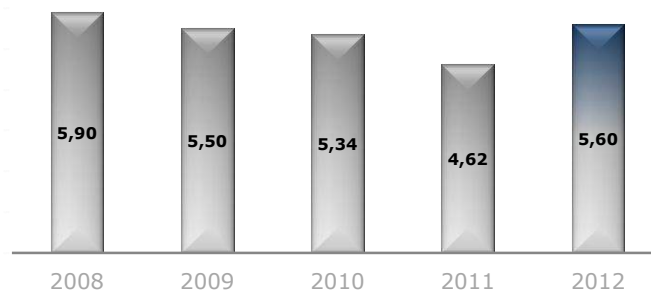
The educational profile changed in 2012 towards a slightly higher average educational level of the employees, since the number of employees with higher education increased (by 29), and the number of employees with only vocational and primary school education decreased (by 21 and 68 respectively).

THE UTILIZATION OF WORKING HOURS

In 2012 sick leave in SIJ Group accounted for 5.6% of total working hours. Sickness absence increased by 1% compared to last year, whereas in the previous four years it had decreased. Sickness absence paid by the state represents 2.3% and that paid by the company 3.3%. Of the total sickness absence charged to the company, 70% was due to illness, 14.2 % due to injuries outside the workplace, and 15.3% due to injuries at work.

In 2012, compared to the previous year, the proportion of absence due to illness in the total sum of hours increased by one percentage point. The absence due to illness decreased by 6.6 percentage points, while the proportion absence due to the care of a family member increased by 5.8 percentage points.

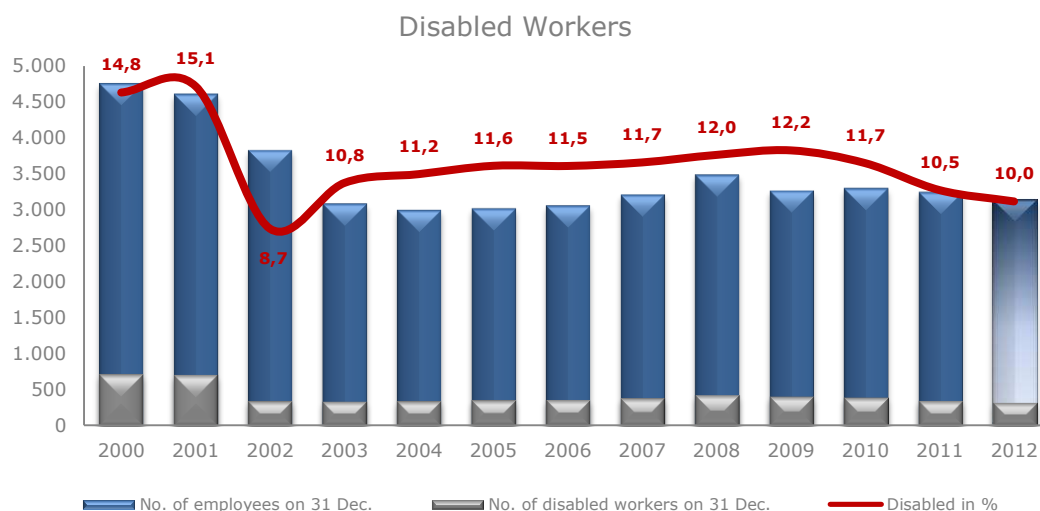
Sick Leave in %



DISABILITY

At the end of 2012, 313 employees had a disabled status, which is 27 employees less than in the previous year. There are 10% of disabled people in the total number of employees, while last year 10.5% were disabled, which was 0.5 percentage points more than the previous year.

In 2012, 15 employees obtained a disability status, while 25 employees did the previous year. The share of the disabled has been gradually decreasing since 2009, namely from 12.2% to 10.0% in 2012.



SUPPLEMENTARY PENSION INSURANCE

One way of motivating and rewarding employees is by including them in a group supplementary pension insurance scheme. In 2001, most of the companies in the Group entered a supplementary pension insurance scheme with Pokojninska družba A. The premiums are mainly paid on an "employee and employer" basis. In compliance with Slovenian legislation 9, the companies of the Group are included in the system of voluntary pension insurance. In 2011 the total amount of premiums paid by the companies was EUR 1,493,286, with an average of 2,569 employees included, and the average premium paid per employee amounted to EUR 835. In 2012 the total amount of premiums paid was EUR 1,482,125, with an average of 2,537 employees included, and the average premium paid per employee amounted to EUR 1,161.

Collective voluntary pension insurance is the most favourable long-term saving for retirement due to the tax relief and guaranteed yield. The country offers tax relief for paid premiums up to 5.844% of the gross salary of an employee, or up to the annual premium in nominal amount, which is defined every year in compliance with the Rules on Determining Tax Relief and Scale for Personal Income Tax Assessment. From the very beginning the paid premiums are the property of the insured worker and are collected on his personal account in the guarantee fund, managed by the provider of the voluntary pension insurance. How high the amount of supplementary pension is depends on the amount of saved funds, the retirement age and the gender of the insured person. If an insured person dies before retirement the total funds are part of his or her inheritance.

AWARDS AND MOTIVATION

Successful management of the performance system, as well as rewarding and motivating our employees, lead to good business results and the improved productivity and satisfaction of employees. The competence system enables employees to develop personally, professionally and career-wise. The Group

has established a system of annual appraisals with employees in order to encourage their development and improve work conditions within the company and the working environment of employees.

In most companies wages are calculated based on fixed and variable portions. A system of measurable criteria has been set up for production workers, which allows for the increase/decrease of their salaries depending on the criteria met. The wages of those employed on the basis of service contracts also include a fixed portion and a variable portion, whereby the value of the variable portion is set individually each month. As part of the annual awards, a Christmas bonus has been given to employees for some years, which depends on the operating results achieved by individual companies during that year.

Employees are additionally motivated and rewarded through the system of idea management, where each employee has the opportunity to suggest and implement improvements in the company. Useful suggestions and ideas are also rewarded.

Employees have at their disposal free or subsidized use of sports equipment and activities as well as cultural activities and holidays at different locations.

EDUCATION AND TRAINING

In 2012, we earmarked a total of EUR 680,901 for education and training, which is 9.4% less than the previous year. Despite the implementation of savings measures, we strive to have appropriately qualified, expert, creative, motivated and gifted employees who are prepared to take on new challenges, because this is the only way we can be successful in the most demanding global markets.

Education and training consist of function-specific education, in-service training, part-time study and scholarships, as well as practice and mentoring.

FUNCTIONAL EDUCATION AND IN-SERVICE TRAINING

Functional education and training are implemented in all the companies of SIJ Group. In 2012, EUR 314,961 were earmarked for these activities, which is 16.0% less than in 2011. Function-specific education includes content to provide greater expertise to individuals, broader knowledge of changes in legislation, training of employees at their workplace in line with legally binding legislation, and improving skills in new, technologically advanced methods. The main purpose of in-service training is the transfer of knowledge gained within the work process and sharing expert and practical knowledge in a sense of cooperation between employees.

PART-TIME STUDY

Part-time study is available in the fields of mechanical engineering, metallurgy, electro technology, economy, management, IT, and acquiring a certified auditor licence. In 2012, EUR 205,118 was earmarked for part-time study, which is 10.9% more than in the previous year. There are 211 employees studying part-time.

SCHOLARSHIPS

The Group is trying to lower the risks associated with shortages of professional workers, especially in the field of metallurgy, mechanical engineering and electrical engineering. For this reason different measures have been introduced to motivate students in secondary school and university to choose occupations where there is a shortfall; these measures include the presentation of our companies and occupations as well as scholarships. In 2012, EUR 103,979 were earmarked for scholarships. There are 81 scholarship holders in the Group. The scholarship system covers mainly the programs of metallurgy, mechanical engineering, mechatronics and electrical engineering.

PRACTICE AND MENTORING

One of the ways to present the activities of the SIJ Group to students is to enable them to do their work experience training in our companies and to offer them mentoring for various natural science and sociological professions. In 2012, EUR 56,843 were earmarked for this purpose, which is 18% more than the previous year. There were 98 students from secondary schools and universities included in the internship system. Students from secondary school and university who did their work experience with us were also included in the formal study of metallurgy, mechanical engineering, mechatronics, computer science and chemistry.

OCCUPATIONAL HEALTH AND SAFETY

EMPLOYEE TRAINING

In line with legislation, the companies perform periodic training of employees and check that they are well-trained in occupational health and safety. This also includes occupational health and safety training for new employees, when an employee is transferred to a different position, and when introducing employees to work with new technologies.

WORK-RELATED INJURIES

In 2012, there were 227 work-related injuries in the Group, compared to 222 in the previous year. No serious injuries were recorded in 2012.

STANDARDS

In order to ensure and control the occupational health and safety of our employees, we operate in line with the following obtained quality management, environmental management, occupational health and safety, and energy management standards:

- ❖ ISO 9001 standard: Quality Management System
- ❖ ISO 14001 standard: Environmental Management system

- ❖ ISO OHSAS 18001 standard: Occupational Health and Safety System
- ❖ EN 16001 certificate: Energy Management System

Our companies have obtained the following certificates:

	ISO 9001	ISO 14001	OHSAS 18001	EN 16001
Acroni	*	*	*	*
Metal Ravne	*	*	*	
Ravne Knives	*			
Elektrode Jesenice	*			
SUZ	*			
ZIP Centre	*	*		
Serpa	*			

RELATIONSHIP TO THE ENVIRONMENT

ENVIRONMENTAL PROTECTION

Environmental management in a modern society is governed by numerous regulations set by the European Union, the Republic of Slovenia or local communities. Regulations and laws governing the relationship to the environment and protecting it from human interference are strictly observed in the Group, which can set an example as a representative of heavy industry. The Group was among the first in Slovenia to obtain the ISO 14000 standard certificate.



Since steel production involves a huge consumption of energy and resources, it has a great impact on the external environment. According to data by World Steel Association, the global steel industry produces nearly 7% of the world's carbon dioxide emissions.

Health and a safe living environment are fundamental conditions for human life. Environmental protection is one of the basic human rights, obligations and responsibilities of all our employees and is an integral part of the company's management policy.

Our operations are guided by the increasing requirements of standards and stricter environmental legislation, both domestic and European. The SIJ Group successfully follows trends which determine terms and conditions of conduct. This means that we also pay special attention to the continuous reduction of emissions into the environment, to waste water, and to the reduction of air pollution, noise and waste.

We have integrated environmental protection into all our planning processes and decisions, making it a significant element of the company's management. We regularly monitor and assess the effects of our operations on the environment, educate and train our employees, modernize technological processes by implementing new projects to minimize the impact on the environment, and use materials that are less burdensome for the environment.

We invest in healthy and safe working conditions, create an organized and motivational working environment, and recycle waste.

Compliance with environmental protection criteria is a key component of our daily lives, which next to quality and price has the most decisive impact on our competitiveness. We have therefore been pursuing the trend of reducing our consumption of natural resources, including the consumption of electricity and drinking water, and the use of natural materials.

The most important tasks include emission and pollution control (IPPC directive¹¹- [Integrated Pollution and Prevention Control](#), controlled by ARSO¹²); this particularly applies to non-renewable resources such as running water and air. Due to their conscientious and responsible treatment of the environment and environmental goods, our steel companies, being potentially polluting, were among the first in Slovenia to obtain the IPPC licence.

RELATIONSHIP WITH THE SOCIAL ENVIRONMENT

Satisfied employees are a huge benefit to a company. With that in mind, we strive to improve the quality of the work and lives of our employees and their family members. The operation of our companies is traditionally well accepted in the local environment since, apart from ensuring a great number of jobs, they are respectful of the environment and the local inhabitants. Over **EUR 2 million** has been invested in local cultural and sports activities at the level of the Group in previous years. Due to the overall economic crisis, we have had to cut back on our donations and sponsorships, but we remain involved and contribute as much as we can.

¹¹ *Integrated Pollution Prevention and Control*

¹² *Slovenian Environment Agency*



We promote loyalty

Due to their strong integration in the local environment and the vicinity of the town, our two largest companies have maintained a very close bond with the locals since the very beginning. Apart from numerous new jobs, the expansion of their main activities also created a certain level of stress for the environment and its inhabitants. With the right amount of understanding and agreement, the synergy arising from the tradition of the iron industry established by our ancestors will remain a part of our coexistence.

Despite the unfavourable conditions on the steel market, we have tried to stay connected to the environment in which we conduct our business and where our employees live. Although in 2012 we were somewhat less involved in terms of financial contributions to society, we continued to sponsor the Jesenice Ice Hockey Club and some other sports clubs in Ravne. We allowed the civil society initiative an insight into our operations, and receive regular visits from the young who wish to get familiar with the steel industry. In 2012, we enabled students at high schools and different faculties to do their obligatory practical training in our company, which is necessary for them to successfully finish their studies or the study year.

RELATIONSHIP WITH AND OBLIGATIONS TO BUSINESS PARTNERS

RELATIONSHIP WITH CUSTOMERS AND USERS OF OUR PRODUCTS

Customer relationship management is one of the Group's most important business factors, to which special attention is paid every day due to the constant growth of competition on the steel market.

Since we value a good business attitude and professionalism in our customers, we also wish to build relationships with our buyers and suppliers based on these qualities.

We constantly monitor customers' needs and react accordingly. We develop new materials together with customers and do our best to meet the needs of end customers. Merchants and dealers can cloud the real image and customers' needs; therefore we strive to increase the number of our orders for special projects for a familiar customer.

We regularly contact our customers in order to develop a relationship of full cooperation, respect and trust. We conduct regular research and analyses on customer satisfaction and monitor customers' evaluations. We are aware that our success depends on their help and support. We exhibit our products at various fairs, and organise different meetings with customers, our agents and steel centres, with the goal of presenting our products and their applicability.

RELATIONSHIP WITH SUPPLIERS

Purchasing is very important for a reliable supply of quality input materials in the steel industry. This is why we regularly check the quality of individual suppliers, while we have the more relevant materials delivered to us by selected strategic suppliers. We keep regular business contacts with them and also look for new ones if altered customers' needs so require.

Just as with customers, in our relationship with suppliers we make sure that we respect good business practices, based on formal behaviour, loyalty, precision and the safety of business secrets, so that agreements are mutually respected, and all our employees who are directly or indirectly involved in making and executing business deals respect moral and ethical principles.

COMMUNICATION WITH THE ENVIRONMENT AND PARTICIPANTS IN OUR BUSINESS OPERATIONS

COMMUNICATION WITH OWNERS

After six years of jointly building a future for SIJ Group and its companies the communication channels between the owners and SIJ Group are well established through consolidated reporting of operations of the SIJ Group. They enable a quick response to any deviation from our set goals.

Forms of communication include meetings of the Supervisory Board and, at least once a year, the General Assembly of the shareholders. Communication is made by the Management Board of the controlling company, and mostly by the Department of Finance and Economics where reports and performance analyses are prepared and coordinated, forming the basis of the strategic decision-making processes.

COMMUNICATION WITH BANKS

The Group cooperates with several banks, both in Slovenia and abroad. Communication with the banks is made through a uniform management of the controlling company's Finance Department, which regularly provides the banks with all the data needed for the assessment of SIJ Group's performance. The Group's investment projects are demanding and of high value, so therefore we usually provide the banks with a whole package of information: from Gantt charts to the envisaged financial structure and the calculation of the economic viability of the investment, including effects on performance.

COMMUNICATION WITH CUSTOMERS

To be able to effectively manage our business policy towards customers, we have introduced different forms of communication and media.

Technological advances most frequently offer internet solutions as one of the most commonly used and practical types of connection. The companies' websites are designed to enable the customer access to basic information on our individual companies, their products, and their application and order possibilities.

We work with the people and for the people, and we are aware that personal contacts are indispensable. In addition to regular daily contact with customers, we maintain a quick flow of information and present ourselves to a larger number of existing and potential customers at different theme fairs.

Our communication with the customer does not end with the signing of a sales contract, but is continued through post-sales service for products and services sold. A satisfied customer is the best advertisement for the company.

COMMUNICATION WITH EMPLOYEES

Human capital is the most valuable source for operation of each organization. Much has been written about it, but practical implementation can only be achieved by responsible companies.

We use different tools of internal communication and also traditional forms of communication to communicate with our employees, for example, through message boards, an internal newspaper and meetings.

The employees of the Group receive a monthly internal newspaper, SIJ, which covers the most important events of the previous month in SIJ Group, innovations in work and development technologies, news on investments, changes in staff, and personal achievements of the employees as well as their leisure time in image and word.

The authors of the newspaper are employed at locations managed by the editor-in-chief, with the purpose of getting a clear picture of the events at these locations and the functioning of the people responsible for the business results of our Group.

The newspaper plays an important role in giving people a sense of belonging. SIJ Group's internal newspaper has a wider role since it is used by the management of the Group and companies to provide information to employees and the general public, i.e. our business partners, the local community and other important participants.

COMMUNICATION WITH THE MEDIA

The media ensure the fastest flow of information to different business participants and the population. To the business group they represent the most important source of information for the relevant public: our employees and customers, suppliers, owners, investors, and the broader local community. The good reputation and recognition of the business group and the trademarks of our companies is also achieved through a correct attitude towards the public and a continuous flow of information supported by a willingness to communicate.

At the level of the Group and companies we regularly provide press conferences, numerous press releases addressed to large audiences, informative material, and information on our websites as well as other events and informal gatherings. Communication with the media is made through the public relations department of SIJ, d. d.



sij group

FINANCIAL REPORT

FINANCIAL REPORT

STATEMENT ON THE RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for drawing up consolidated financial statements for each individual financial year according to the International Financial Reporting (IFRS) adopted by the European Union (EU) and the Companies Act, so that they give a true and fair view of the SIJ Group's operations.

The Board of Directors legitimately expects the Group to have enough resources in the foreseeable future to enable it to continue its operations. The consolidated financial statements are therefore based on the premise that the Group will continue its operations without a set time limit.

The responsibility of the Board of Directors in drawing up the consolidated financial statements includes the following:

- Properly selected and consistently applied accounting policies;
- Reasonable and rational assessments and estimates;
- The consolidated financial statements have been compiled in accordance with the IFRS adopted by the EU. Any significant deviations are disclosed and explained in the report.

The Board of Directors is responsible for keeping corresponding records, which give a clear and accurate picture of the Group's financial position at any given time, and for making sure that the consolidated financial statements of the Group are in accordance with the IFRS, adopted by the EU. The Board of Directors is also responsible for protecting the Group's assets, as well as discovering and preventing abuses and other irregularities.

Anytime within 5 years after the end of the year in which the tax assessment should be made, the tax authorities can inspect the operations of individual Group's company. This can result in occurrence of additional tax liabilities, default interests and fines based on corporate income tax or other taxes and duties. No circumstance which could result in possible liability in this title is known to the Board of Directors.

The Board Of Directors declares that the consolidated financial statements have been compiled in accordance with the IFRS adopted by the EU, without reservations about their application.

The Board of Directors approved the consolidated financial statements on 15 March 2013.

President of the Board of Directors
Tibor Šimonka

Vice-President of the Board of Directors
Viacheslav Korchagin

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 Dec. 2012	31 Dec. 2011
ASSETS			
Non-current assets		422,058,676	403,682,707
Intangible assets	01	19,718,244	17,757,457
Property, plant and equipment	02	386,086,823	372,797,060
Investment Property	03	79,997	83,628
Investments in Associates	04	630,835	301,260
Available-for-Sale Financial Assets	05	739,504	651,412
Loans issued	06	114,961	143,461
Other assets	07	3,343,634	4,291,613
Deferred tax assets	08	11,344,678	7,656,816
Current assets		341,515,336	358,429,407
Assets held for disposal	09	5,670,020	4,331,037
Inventories	10	155,184,341	161,511,027
Financial assets at fair value through profit or loss	11	430	64,375
Loans issued	12	6,133,239	9,728,482
Trade and other receivables	13	145,669,689	156,104,915
Income tax assets	14	841,167	190,640
Cash and cash equivalents	15	26,922,115	24,844,734
Other assets	16	1,094,335	1,474,197
Total assets		763,574,012	761,932,114
EQUITY AND LIABILITIES			
Equity	17	328,003,560	331,297,201
Capital and reserves attributed to the owners of the parent company		323,873,862	327,450,310
Share capital		145,266,066	145,266,066
Capital Surplus		11,461,177	11,461,176
Revenue reserves		(946,217)	(1,493,356)
Fair value reserves		28,890	(105,572)
Translation differences		(36,726)	(50,648)
Retained earnings		168,100,672	172,372,644
Non-controlling interest		4,129,698	3,846,891
Non-current liabilities		155,507,759	120,824,044
Employee benefits	18	10,500,510	11,314,713
Other provisions	19	1,866,188	2,536,961
Deferred revenues	20	682,590	622,189
Borrowings	21	135,873,076	97,535,025
Other financial liabilities	22	6,288,123	8,655,026
Operating liabilities	23	167,665	126,682
Deferred tax liabilities	08	129,607	33,448
Current liabilities		280,062,693	309,810,869
Liabilities held for disposal	09	951,293	-
Borrowings	24	107,359,894	134,257,451
Other financial liabilities	25	4,742,600	4,775,292
Operating liabilities	26	163,529,118	165,006,399
Income tax liabilities	14	96,452	889,118
Other liabilities	27	3,383,336	4,882,609
Total equity and liabilities		763,574,012	761,932,114

The notes to the consolidated financial statements are an integral part of the consolidated financial statements and should be read in conjunction with them.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2012	2011
Revenues	28	732,549,967	764,977,836
Cost of sales	29	(633,226,043)	(635,183,843)
Gross profit		99,323,924	129,793,993
Distribution costs	29	(45,299,521)	(51,017,253)
General and administrative expenses	29	(53,096,942)	(51,075,484)
Other operating income	30	8,359,307	9,162,889
Other operating expenses	31	(2,592,376)	(4,699,595)
Operating profit		6,694,392	32,164,550
Finance income	32	968,639	1,459,359
Finance expenses	33	(10,092,386)	(12,094,425)
Finance costs - net		(9,123,747)	(10,635,066)
Share of profit of associates		329,575	1,860
Loss/profit before taxation		(2,099,780)	21,531,344
Income tax	34	(987,185)	(1,676,189)
Deferred tax	34	3,826,414	(2,526,884)
Operating profit from continuing operations		739,449	17,328,271
Loss from discontinued operations		-	(200,741)
Net profit for the year		739,449	17,127,530
Change in fair value reserves for available-for-sale financial assets	17	167,198	(204,133)
Exchange rate difference on translating foreign operations		48,085	24,750
Income tax related to components of comprehensive income	17	(32,736)	40,827
Comprehensive income		921,996	16,988,974

	Note	2012	2011
Net profit for the year, attributed to:		739,449	17,127,529
Owners of the parent company		628,053	17,344,572
Non-controlling interest		111,396	(217,043)
Basic and diluted	35	0.64	17.58
Comprehensive income, attributed to:		921,996	16,988,974
Owners of the parent company		776,437	17,213,887
Non-controlling interest		145,559	(224,913)

The notes to the consolidated financial statements are an integral part of the consolidated financial statements and should be read in conjunction with them.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IN 2012

	Capital and reserves attributed to the owners of the parent company							Non-controlling interest	Total
	Share capital	Capital Surplus	Revenue reserves	Fair value reserves	Translation differences	Retained earnings	Total		
As at 31 December 2011	145,266,066	11,461,177	(1,493,356)	(105,572)	(50,648)	172,372,644	327,450,311	3,846,891	331,297,202
Decrease in non-controlling interest	-	-	-	-	-	(4,352,886)	(4,352,886)	(947,114)	(5,300,000)
Purchase of subsidiary	-	-	-	-	-	-	-	613,096	613,096
Disposal of subsidiary	-	-	-	-	-	-	-	471,266	471,266
Creation of legal reserves	-	-	547,139	-	-	(547,139)	-	-	-
Transactions with owners	-	-	547,139	-	-	(4,900,025)	(4,352,886)	137,248	(4,215,638)
Net profit for the year	-	-	-	-	-	628,053	628,053	111,396	739,449
Change in fair value reserves for available-for-sale financial assets	-	-	-	167,198	-	-	167,198	-	167,198
Exchange rate difference on translating foreign operations	-	-	-	-	13,922	-	13,922	34,163	48,085
Income tax relating to components of the comprehensive income	-	-	-	(32,736)	-	-	(32,736)	-	(32,736)
Changes in comprehensive income	-	-	-	134,462	13,922	628,053	776,437	145,559	921,996
As at 31 December 2012	145,266,066	11,461,177	(946,217)	28,890	(36,726)	168,100,672	323,873,862	4,129,698	328,003,560

The notes to the consolidated financial statements are an integral part of the consolidated financial statements and should be read in conjunction with them.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY IN 2011

	Capital and reserves attributed to the owners of the parent company							Non-controlling interest	Total
	Share capital	Capital Surplus	Revenue reserves	Fair value reserves	Translation differences	Retained earnings	Total		
As at 31 December 2010	145,266,066	11,461,177	(1,504,366)	57,734	(83,269)	155,044,301	310,241,643	4,034,900	314,276,543
Decrease in non-controlling interest	-	-	-	-	-	(5,219)	(5,219)	(781)	(6,000)
Covering of loss	-	-	-	-	-	-	-	37,686	37,686
Creation of legal reserves	-	-	11,010	-	-	(11,010)	-	-	-
Transactions with owners	-	-	11,010	-	-	(16,229)	(5,219)	36,905	31,686
Net profit/loss for the year	-	-	-	-	-	17,344,572	17,344,572	(217,043)	17,127,529
Change in fair value reserves for available-for-sale financial assets	-	-	-	(204,133)	-	-	(204,133)	-	(204,133)
Exchange rate difference on translating foreign operations	-	-	-	-	32,621	-	32,621	(7,871)	24,750
Income tax relating to components of the comprehensive income	-	-	-	40,827	-	-	40,827	-	40,827
Changes in comprehensive income	-	-	-	(163,306)	32,621	17,344,572	17,213,887	(224,914)	16,988,973
As at 31 December 2011	145,266,066	11,461,177	(1,493,356)	(105,572)	(50,648)	172,372,644	327,450,311	3,846,891	331,297,202

The notes to the consolidated financial statements are an integral part of the consolidated financial statements and should be read in conjunction with them.

CONSOLIDATED CASH FLOW STATEMENT

	Note	2012	2011
Cash flow from operating activities			
Loss/profit before taxation		(2,099,780)	21,531,344
Adjusted for:			
Depreciation and amortisation	01, 02	34,625,552	32,029,018
Share of profit of associates	04	(329,575)	(1,860)
Interest income	32	(660,569)	(1,302,259)
Interest expenses	33	9,862,306	11,253,683
Exchange rate differences, net		11,899	65,557
Profit/loss on investment sales	05, 11	(178,229)	365,292
Impairment of assets	10	842,669	1,960,395
Reversal of allowances and provisions		(35,761)	(1,104,607)
Other adjustments		(1,607,704)	(2,770,652)
Operating cash flow before working capital changes		40,430,808	62,025,911
Changes in working capital			
Change in trade and other receivables		10,387,314	(1,759,861)
Change in inventories		4,937,823	(6,215,088)
Change in trade and other liabilities		10,295,207	28,363,022
Change in taxes other than income tax		(217,841)	128,597
Payments for disposal of provisions		(1,757,329)	(1,796,955)
Receipts from government grant		318,003	483,866
Income tax paid		(2,442,028)	(1,414,773)
Other receipts		-	37,681
Changes in working capital		21,521,149	17,826,489
Net cash generated from operating activities		61,951,957	79,852,400
Cash flow from investing activities			
Payments for investments in subsidiaries		(13,704,166)	(2,205,999)
Receipts from investments in subsidiaries		327,062	-
Payments for investments in associates		-	(299,400)
Payments for property, plant and equipment	01	(47,706,001)	(54,254,101)
Receipts from property, plant and equipment	01	192,460	1,013,227
Payments for intangible assets	02	(1,447,844)	(447,623)
Receipts from other assets		383,994	628,900
Payments for loans issued	06, 12	(14,400,052)	(12,016,987)
Receipts from loans issued	06, 12	19,549,520	15,425,872
Received interests		516,937	1,213,304
Received dividends	05	19,664	14,505
Net cash used in investing activities		(56,268,426)	(50,928,302)
Cash flow from financing activities			
Receipts from borrowings	21, 24	301,226,243	204,276,373
Payments for borrowings	21, 24	(288,743,629)	(215,186,000)
Change in transaction account overdrafts	24	(538,504)	22,179
Payments for finance lease	22, 25	(3,916,158)	(4,047,651)
Interests paid		(11,621,645)	(11,381,315)
Net cash used in from financing activities		(3,593,693)	(26,316,414)
Cash and cash equivalents at 1 January		24,844,734	22,227,460
Translation differences		(12,457)	9,590
Increase		2,089,838	2,607,684
Cash and cash equivalents at 31 December		26,922,115	24,844,734

The notes to the consolidated financial statements are an integral part of the consolidated financial statements and should be read in conjunction with them.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

REPORTING ENTITY

SIJ – Slovenian Steel Group, d. d., is the controlling company of the SIJ Group with the registered office in Slovenia. The controlling company of the Group has a registered address on Gerbičeva ulica 98, 1000 Ljubljana. Given we present the consolidated financial statements for the year ended 31 December 2012.

Consolidated financial statements for a selected group of subsidiaries are compiled by the company SIJ – Slovenian Steel Group, d. d. Consolidated financial statements for a wider group of subsidiaries are compiled by DILON Cooperatief U. A. The consolidated annual report for the Group DILON Cooperatief will be available at the registered office of DILON Cooperatief U.A., Luna Arena, Herikerbergweg 238, 1101 CM Amsterdam Zuidoost, Amsterdam, the Netherlands.

BASIS OF PREPARATION

The consolidated financial statements for 2012 have been prepared in accordance with the IFRS as adopted by the EU. The standards have been applied directly in disclosures and valuation of items. The exception was the valuation of items for which the standards allow several methods of valuation.

The consolidated financial statements in the report are expressed in euros (EUR), without cents. Due to the rounding off of value amounts, there may be insignificant deviations to the sums given in tables.

In the selection of accounting principles and their application, as well as in the preparation of these consolidated financial statements, the Board of Directors considered the following three requirements: consolidated financial statements are comprehensible, if users can understand them without difficulty; the information is adequate, if they help users make economic decisions; and the information is fundamental, if its exclusion or false presentation could influence users' economic decisions.

The consolidated financial statements have been prepared in compliance with the IFRS, adopted by the International Accounting Standards Board (hereinafter: IASB), and with the interpretations issued by the International Financial Reporting Interpretations Committee (hereinafter: IFRIC), as adopted by the EU, namely:

a) Currently applicable standards and interpretations

The following amendments to the existing standards issued by the IASB and adopted by the EU currently apply:

- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Transfers of Financial Assets, adopted by the EU on 22 November 2011 (apply to annual periods beginning on or after 1 July 2011).

Adoption of these amendments to the existing standards had no effect on the accounting policies of the Group.

b) Standards and interpretations issued by IASB and adopted by the EU, but not yet effective

On the date of approval of these consolidated financial statements following standards, amendments and interpretations adopted by the EU were issued, but not yet effective.

- IFRS 10 "Consolidated Financial Statements", adopted by the EU on 11 December 2012 (applies to annual periods beginning on or after 1 January 2014),
 - IFRS 11 "Joint Arrangements", adopted by the EU on 11 December 2012 (applies to annual periods beginning on or after 1 January 2014),
 - IFRS 12 "Disclosure of Interests in Other Entities", adopted by the EU on 11 December 2012 (applies to annual periods beginning on or after 1 January 2014),
 - IFRS 13 "Fair Value Measurement", adopted by the EU on 11 December 2012 (applies to annual periods beginning on or after 1 January 2013),
 - IAS 27 (as amended in 2011) "Separate Financial Statements", adopted by the EU on 11 December 2012 (applies to annual periods beginning on or after 1 January 2014),
 - IAS 28 (as amended in 2011) "Investments in Associates and Joint Ventures", adopted by the EU on 11 December 2012 (applies to annual periods beginning on or after 1 January 2014),
 - Amendments to IFRS 1 "First-Time Adoption of the International Financial Reporting Standards" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters adopted by the EU on 11 December 2012 (apply to annual periods beginning on or after 1 January 2013),
 - Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (apply to annual periods beginning on or after 1 January 2013),
- Amendments to IAS 1 "Presentation of Financial Statements" – Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (apply to annual periods beginning on or after 1 July 2012).
- Amendments to IAS 12 "Income Taxes" – Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (apply to annual periods beginning on or after 1 January 2013),
 - Amendments to IAS 19 "Employee Benefits" – Improvements to the Accounting for Post-Employment Benefits, adopted by the EU on 5 June 2012 (apply to annual periods beginning on or after 1 January 2013),
 - Amendments to IAS 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (apply to annual periods beginning on or after 1 January 2014),
 - IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", adopted by the EU on 11 December 2012 (applies to annual periods beginning on or after 1 January 2013).

The Group decided not to apply these standards, amendments and interpretations before their entry into force. The Group projects that the adoption of these standards, amendments and interpretations will not have a significant effect on the consolidated financial statements at their first application.

c) Standards and interpretations issued by IASB, but not yet adopted by the EU

Currently there is no significant difference between the IFRS adopted by the EU, and the regulations adopted by IASB, with the exception of the following standards, amendments to the existing standards, and interpretations, which had not yet been approved for use on 15 March 2013:

- IFRS 9 "Financial Instruments" (applies to annual periods beginning on or after 1 January 2015),
- Amendments to IFRS 1 "First-Time Adoption of the International Financial Reporting Standards" – Government Loans (apply to annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 9 »Financial Instruments« and IFRS 7 »Financial instruments: Disclosures" – Mandatory Effective Date and Transition Disclosures,
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities" – Transition Guidance (applies to annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IFRS 27 "Separate Financial Statements" – Investment Entities (applies to annual periods beginning on or after 1 January 2014),
- Amendments to various standards "Improvements to IFRSs (2012)" based on Annual Improvements to IFRSs, published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) with a purpose to eliminate the inconsistencies and interpret the text (the amendments should be applied to annual periods beginning on or after 1 January 2013).

The Group projects that the adoption of these standards, amendments to the existing standards and interpretations will not have a significant effect on the consolidated financial statement at their first application. At the same time the accounting of hedging instrument in connection with the portfolio of financial assets and liabilities, the principles of which the EU has not yet adopted, is still unregulated. The Group assesses that the use of accounting of hedging instrument in connection with financial assets and liabilities in accordance with the requirements of IAS 39: "Financial Instruments: Recognition and Measurement" would not have a significant influence on the consolidated financial statements, if it was used on the date of the statement of financial position.

BASIS OF MEASUREMENT

The consolidated financial statements have been prepared based on historical cost, except for the following assets and liabilities, measured at their fair value:

- derivative,
- financial assets at fair value through profit or loss,
- available-for-sale financial assets.

FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements in this report are presented in euro (EUR) without cents; the euro is also the functional currency of the Group's controlling company, which compiles consolidated financial statements.

APPLICATION OF ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements requires the Board of Directors to make estimates, judgments and assumptions that influence the disclosed amounts of assets and liabilities and the disclosed contingent assets and liabilities on the day of the preparation of the consolidated financial statements, as well as the disclosed amounts of income and expenses in the reporting period.

Estimates and assumptions are included in the following judgments at least:

- estimate of the useful life of assets subject to depreciation,
- impairment test of assets,
- estimate of the fair value of available-for-sale financial assets,
- estimate of the fair value of financial assets measured at fair value through profit or loss,
- estimate of the net realizable value of inventories,
- estimate of the recoverable value of receivables,
- estimate of deferred tax assets and liabilities,
- estimate of the necessary provisions.

Since estimates are subject to subjective judgments and a level of uncertainty, the subsequent actual results can differ from those estimated. Estimates are reviewed on an on-going basis. Amendments to the accounting estimates are recognized during the period in which the estimates were revised, if the amendment only applies to this period, or during the period of the amendment and future periods, if the amendment applies to future periods.

COMPOSITION OF THE GROUP OF RELATED PARTIES

Consolidated financial statements of the SIJ Group include financial statements of the parent company SIJ – Slovenian Steel Group, d. d., and financial statements of the companies of the SIJ Group.

The group of companies, in which the parent company holds financial investments, includes the following companies:

	Activity	% of voting rights	Value of assets 31 Dec. 2012	Value of equity 31 Dec. 2012	Net profit 2012
Parent company of the Group					
SIJ – Slovenian Steel Group, d. d., Gerbičeva ulica 98, Ljubljana	Holding activity		204,985,874	178,647,444	10,942,910
SIJ – subsidiaries					
Acroni, d. o. o., Cesta Borisa Kidriča 44, Jesenice	Steel production	100	422,846,831	159,888,873	(3,306,183)
Metal Ravne, d. o. o., Koroška cesta 14, Ravne na Koroškem	Steel production	100	200,015,562	83,391,077	3,840,813
Ravne Knives, d. o. o., Koroška cesta 14, Ravne na Koroškem	Production of industrial knives	100	16,965,518	12,083,068	674,067
Elektrode Jesenice, d. o. o., Cesta železarjev 8, Jesenice	Production of welding materials	100	11,887,323	5,460,682	163,326
SUZ, d. o. o., Cesta Borisa Kidriča 44, Jesenice	Production of drawn wires	100	3,323,543	824,301	9,943
ZIP Center, d. o. o., Koroška cesta 14, Ravne na Koroškem	Education and training of disabled	100	1,423,528	92,561	888
Železarna Jesenice, d. o. o., Cesta železarjev 8, Jesenice	Trading with own real estate	100	10,452,568	9,681,482	153,299
Žična Celje, d. o. o., Cesta v Trnovlje 7, Celje	Other business and management consulting	100	1,771,208	1,764,412	16,536
Odpad, d. o. o., Pivka, Velika Pristava 23, Pivka	Recovery of secondary raw materials from scarp	74.90	23,442,879	6,410,428	228,122
NIRO Wenden GmbH, Glück – Auf - Weg 2, Wenden, Germany	Steel cutting, engineering and trade	85	6,362,584	2,737,325	637,327
SMG Edelstahl GmbH, Im Alber 4, Salach, Germany	Steel and machine trade	60	1,199,896	(2,316,021)	(56,655)
Ravne Steel Center, d. o. o., Litostrajska cesta 60, Ljubljana	Trade	77.28	23,869,473	11,384,410	813,753
Griffon & Romano Group, Via Tacito 8/10, Corsico, Italy	Heat processing and special steel trade	100	34,723,709	654,526	(1,279,780)
SIJ Steel Processing, d. o. o., Gerbičeva ulica 98, Ljubljana	Sales network management	100	541,952	357,305	183,530
ACRONI – subsidiaries					
Acroni Italia S. r. l., Via San Michele 334, Gorica, Italy	Trade	100	2,676,995	1,510,653	747,550
Acroni Deutschland GmbH, Paulsmuhlenstrasse 42, Duesseldorf, Germany	Trade	100	539,483	340,370	(71,795)
METAL RAVNE – subsidiaries					
KOPO International Inc., New Jersey, USA	Trade	100	13,897,053	1,220,636	110,961
Serpa, d. o. o., Koroška cesta 14, Ravne na Koroškem	Production of metallurgic machines	85.61	6,252,276	3,955,676	310,139
ODPAD – subsidiaries					
Dankor, d. o. o., Europske avenije 22, Osijek, Hrvaška	Recovery of secondary raw materials from scarp	51	2,571,643	639,248	12,308
Metal – Eko Sistem, d. o. o., Put Kneza Mihaila 107, Jagodina, Serbia	Recovery of secondary raw materials from scarp	70	2,623,188	2,035,014	16,701
Ravne Steel Center – subsidiary					
SIDERTOCE S. p. A., Via XX. Settembre 198, C. P. 34, Gravellona Toce, Italy	Trade	100	15,344,839	2,169,961	(285,202)

In July 2011 company SIJ – Slovenian Steel Group, d. d., established a company SIJ Steel Processing, d. o. o.

In May 2012 company SIJ – Slovenian Steel Group, d. d., bought a 40% share and became the sole owner of the parent company of the Griffon & Romano Group. The acquisition do not give rise to changes in the companies' control, and the Group recognized the difference between the costs making additional investments and the carrying amount of assets in equity as a decrease in non-controlling interest.

In August 2012 the takeover of the company Metal – Eko Sistem, d. o. o., from Jagodina, Serbia, was completed. It's 70% owner became company Odpad, d. o. o., Pivka.

In September 2012 insolvency proceedings have been started in company SMG Edelstahl GmbH. The Group excluded the company from consolidated financial statements. The liquidation is not recognized as discontinued operation, because the effect on consolidated financial statements isn't important. The liquidation resulted in expenses for the Group of EUR 8,312.

The liquidation process in the subsidiary Iuenna Stahl Productions und Handelsgesellschaft m.b.H., which began at the beginning of 2012, was completed in December. All activities of the company was transferred to the controlling company Metal Ravne, d. o. o. The liquidation resulted in revenue for the Group of EUR 12,135.

At the end of 2012 the company SIJ – Slovenian Steel Group, d. d., has made capital contribution to Ravne Steel Center, d.o.o. and became 77,3% owner, by transferring its investment in Sidertoce S. p. A. Metal Ravne, d.o.o. has remained 22,7% owner of Ravne Steel Center, d. o. o. At the same time Ravne Steel Center, d. o. o., became a 100% owner of the company Sidertoce S. p. A.

At the beginning of 2013 the liquidation process in the subsidiaries ACRONI Deutschland GmbH and ACRONI Italia S. r. l. has begun. The companies operate as agents. All activities of both companies will be transferred to the controlling company Acroni, d. o. o.

The financial statements of the companies included in the consolidated financial statements are audited, except for the financial statements of Acroni Deutschland GmbH, Acroni Italia S. r. l. and SIJ Steel Processing, d. o. o. These three are not obliged to be audited also according to the local legislation.

SIGNIFICANT ACCOUNTING POLICIES

SUBSIDIARIES

Subsidiaries are entities controlled by the Group. Control exist when the Group has the power to govern the financial and operating policies of a company so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the Group's consolidated financial statements form the date that control commences until the date that control ceases. The accounting policies of subsidiaries are aligned with the Group's accounting policies.

On the loss of control, the Group derecognizes the assets and the liabilities of the subsidiary, any non-controlling interests and other components of the equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the

previous subsidiary, such interest is measured at fair value at the date the control is lost. Subsequently, the interest is accounted for in equity as an investment in an associate (using the equity method) or as an available-for-sale financial asset, depending on the level of influence retained.

Intra-group valances and any gains and losses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates (accounted for using the equity method) are eliminated to the extent of the Group's interest in the entity. Unrealized losses are eliminated using the same method, provided there is no evidence of impairment.

INVESTMENTS IN ASSOCIATES

Investments in associates are accounted on the basis of equity method. Associates are those companies in which the Group has 20% to 50% of voting rights, and in which it has a significant influence on the operations, but which it does not control.

Upon initial recognition, investment in associates are measured at cost, but are subsequently accounted for using the equity method. The Group's consolidated financial statements include the Group's share of the profit and loss of equity accounted associates, after adjustments to align the accounting policies, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses of an associate exceeds its interest in such an entity, the carrying amount of the Group's interest is reduced to zero and the recognition of further losses is discontinued.

TRANSACTIONS WITH NON-CONTROLLING SHAREHOLDERS

The Group measures goodwill at the fair value of the consideration transferred plus the recognised amount of any non-controlling interest in the acquire, plus the fair value of any pre-existing equity in the acquire (if the business combination is achieved in stages), less the net recognized amount of the assets acquired and liabilities assumed, all measured as at the acquisition date. When the excess is negative, the effect is recognized immediately in profit or loss.

Acquisition costs, other than those associates with the issue of equity or debt securities, incurred in connection with a business combination are expensed as incurred.

The Group accounts for acquisition of non-controlling interests that do not involve the change in control of a company as transactions with owners and therefore no goodwill is recognized.

Adjustments to non-controlling interests are based on a proportionate amount of the assets of the subsidiary. Any surplus or the difference between the costs of additional investments and the carrying amount of assets are recognized in equity.

FOREIGN CURRENCY CONVERSION

Transactions in foreign currencies are translated into the functional currency at the exchange rate on the date of the transaction. Cash assets and liabilities denominated in foreign currency at the end of the period are translated into the functional currency at the then valid exchange rate. Positive or negative

exchange rate differences are the differences between the amortised cost in functional currency at the beginning of the period, adjusted by the amount of effective interest rate and the payments during the period, and the amortised cost in foreign currency, calculated at the exchange rate at the end of the period. Non-cash assets and liabilities, denominated in foreign currency and measured at fair value, are translated to the functional currency at the exchange rate on the date when the fair value is set. Exchange rate differences are recognized in the income statement.

Income statements and cash flow statements of individual companies of the Group abroad, where the company's functional currency is not euro, are translated to the controlling company's reporting currency at the average exchange rate, whereas the statements of financial position are translated to the reporting currency at the exchange rate on the reporting date.

Foreign exchange difference are recognised in comprehensive income and presented under translation differences in equity. In the case of non-wholly-owned subsidiaries abroad, the relevant proportion of the foreign exchange differences is allocated to non-controlling interests. When a foreign operation is disposed of in such a way that control or significant influence is lost, the relevant cumulative amount in the translation reserve is reclassified to profit or loss or as gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

INTANGIBLE ASSETS

At the initial recognition an intangible asset is recognised at cost. The cost also includes imported or non-refundable purchased duties less business or other discounts, and all costs directly associated with the preparation of the asset for the intended use.

Amortisation is calculated on a straight-line basis over the estimated useful life of each individual part (component) of the intangible asset. Amortisation is accounted at cost when the asset becomes available for use.

The estimated useful life of individual intangible assets is 2-10 years.

Amortisation methods, useful life and other group asset values are reviewed at the end of every financial year and adjusted if necessary.

Subsequent costs connected to intangible assets are capitalized only if they increase the future economic benefits derived from the assets to which the costs relate. All other costs are recognized in the income statement as expenses as soon as they are incurred.

Goodwill arising on consolidation represents the excess of the purchase value over the fair value of the group's interest of the acquired identifiable assets, liabilities and contingent liabilities of a subsidiary on the date of acquisition. Negative goodwill is immediately recognized in the consolidated income statement at the date of acquisition. Goodwill is recognized as an asset and is tested at least once a year for impairment. Each impairment is immediately recognized in the consolidated income statement and is not reversed subsequently. Upon the disposal of subsidiary the relevant goodwill amount is included in the determination of profit or loss.

PROPERTY, PLANT AND EQUIPMENT

At the initial recognition tangible assets (property, plant and equipment) are carried at its cost less any accumulated depreciation and accumulated impairment losses, except for land and other assets that are not depreciated, which are shown at their cost, reduced by all relative impairments. The purchase value includes costs that can be directly attributed to the acquisition of each individual item of property, plant or equipment. Parts of property, plant and equipment with different useful lives are accounted as separate items of property, plant and equipment. Borrowing costs, directly attributable to the purchase, construction or production of a qualifying asset, i.e. to the availability of an asset for use, are recognized as part of the cost of such asset. The cost model is used for any subsequent measuring of property, plant and equipment.

Depreciation is calculated on a straight-line basis over the estimated useful life of each individual part (component) of the tangible asset and the residual value. Land and certain other assets are not depreciated. Depreciation is accounted when an asset becomes available for use. Unfinished construction is not depreciated.

The estimated useful life of individual property, plant and equipment type is:

	Useful life
Real estate	10-60 years
Production equipment	1-25 years
Computer equipment	1-10 years
Motor vehicles	2-10 years
Other equipment	1-10 years

Depreciation methods, useful life and other group asset values are reviewed at the end of every financial year and adjusted if necessary.

The replacement costs of items of property, plant and equipment are assigned to the carrying amount of this item, if it is probable that the future economic benefits embodied with this asset will flow to the Group and the cost of the item can be measured reliably. All other costs (for example maintenance costs) are recognized in income statement as expenses as soon as they are incurred.

Costs incurred in connection with property, plant and equipment increase their carrying amount when they increase their future economic benefits in comparison to the originally assessed ones.

INVESTMENT PROPERTY

At its initial recognition, investment property is measured at cost less accumulated depreciation and accumulated impairment losses. The cost model is used for any subsequent measuring of investment property.

Depreciation rates and the depreciation calculation are treated the same as in the case of property, plant and equipment.

FINANCIAL INSTRUMENTS

Financial instruments include the following items:

- non-derivative financial assets,
- non-derivative financial liabilities.

Financial instruments are carried at fair value. Fair value is the amount for which an asset can be exchanged or the liability can be settled between two well-informed and willing parties in an arm's length business transaction.

For determining the fair value of financial instruments the following hierarchy levels of determining fair value are considered:

- the first level includes quoted prices (unadjusted) on active markets for the same assets or liabilities,
- the second level, in addition to the quoted prices at the first level, includes the input data which are directly (i.e. as prices) or indirectly (i.e. as derivatives from prices) observable as assets or liability,
- the third level includes input data for assets or liabilities which is not based on the observable market data.

Quoted prices are used as a basis for determining the fair value of financial instruments. If a financial instrument is not quoted on the organized market or the market is deemed non-active, input data at the second or third level are used to assess the fair value of the financial instrument.

NON-DERIVATIVE FINANCIAL ASSETS

Non-derivative financial assets include cash and cash equivalents, loans and receivable, and investments. The recognition of financial asset is eliminated when contractual rights of the cash flows from the asset expire, or when the rights of contractual cash flows are transferred from a financial asset on the basis of a business transaction in which all risks and benefits of ownership of the financial asset are transferred.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

A financial asset is classified at fair value through profit or loss if it is meant for trading or is determined as such after the initial recognition. Financial assets are determined at fair value through profit or loss under the condition that such assets are manageable, and that the sale or purchase of these assets can be decided on the basis of fair value. After the initial recognition the pertained costs of the business transaction are recognized in profit or loss upon their occurrence. Financial assets at fair value through profit or loss are measured at fair value, whereas the amount of change in the fair value is recognized in the income statement. The trading value of a group of equal financial assets is determined by using the method of moving average prices.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

The available-for-sale financial assets are those non-derivative financial assets designated as available for sale or not included in the category of loans and receivables, or financial assets at fair value through profit or loss.

They are recognized at fair value if the fair value can be determined and profit or loss after the evaluation is recognized directly in the comprehensive income or equity. However, losses due to impairment and profit and losses from the translation of exchange rate differences are excluded here. The recognition at fair value is applied until the recognition of the financial asset is reversed. In reversing an investment, the accumulated profits and losses shown in the comprehensive income are transferred to income statement.

If fair value cannot be reliably measured, because the wide range of estimates of reasonable fair values is important, and the probability of different estimates is hard to assess, the Group measures the financial asset at cost.

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed on the active market. They are included in current assets, except for maturities exceeding 12 months after the date of the consolidated statement of financial position. In such cases they are classified as non-current assets. Loans and receivables are disclosed in the consolidated statement of financial position under operating, financial and other receivables measured at amortised cost using the method of effective interest rate.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, bank deposits up to three months, and other current and readily realizable investments with original maturity of three months or less. They are recognized at cost. Overdrafts on bank accounts are included under current financial liabilities.

NON-DERIVATIVE FINANCIAL LIABILITIES

Financial liabilities include operating, financial and other liabilities. Financial liabilities are initially reported at fair value, increased by costs directly attributable to the business transaction. Subsequent to the initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method. Financial liabilities are part of non-current liabilities, except for liabilities or parts of liabilities with a maturity shorter than 12 months after the date of the consolidated statement of financial position. This type of liability is disclosed as part of current liabilities.

INVENTORIES

Inventories are measured at the lower of cost or net realizable value. The cost value consists of the purchase price, import duties and direct purchase costs. The purchase price is reduced by any discounts

given. The direct purchase costs are transport costs, costs of loading reloading and unloading, costs of monitoring goods, and other costs attributable to directly purchased merchandise, materials or services. Purchase discounts are those that are stated on the invoice, or which are given later and refer to individual purchases. The value of finished and unfinished products refers to all production costs, which include the costs of manufacturing materials, labour costs, depreciation, services and other production costs.

The inventories of materials and merchandise are valued at actual prices, while the inventories of finished and unfinished products are valued using the standard cost method with deviations to actual production prices. The use of inventories is stated at weighted average prices.

The net realizable value is estimated on the basis of the selling price in the ordinary course of business, less the estimated costs of completion and estimated distribution costs. Write-offs of damaged, expired and useless inventories are regularly performed during the year on individual items.

ASSETS (GROUPS) AND LIABILITIES HELD FOR DISPOSALS

Assets held for disposal or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale are classified as assets and liabilities held for sale. Assets or disposal groups are accordingly measured at the lower of their carrying amount and fair value less cost of sale. Impairment losses on the reclassification of assets as assets held for sale, and subsequent losses and gains on remeasurement are recognised in profit or loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated. When investments are classified as assets held for sale, they are no longer equity accounted.

IMPAIRMENT OF ASSETS

FINANCIAL ASSETS

A financial asset is considered to be impaired if objective evidence exists which indicates that one or more events have caused a decrease in the estimated future cash flows from this asset, which can be reliably measured.

Objective evidence of the impairment of financial assets can include: debtor's non-fulfillment or violation; restructuring of the amount owed to the Group if the Group agrees; signs that the debtor will declare bankruptcy; disappearance of the active market for the instrument at hand.

IMPAIRMENT OF RECEIVABLES AND LOANS ISSUED

The Group assesses evidence regarding the impairment of receivables separately or collectively. All important receivables are measured separately for the purpose of special impairment. If it is assessed that the carrying amount of the receivables exceeds the fair value, i.e. the recoverable value, receivables are considered to be impaired.

Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. The Group creates groups on the basis of the maturity of receivables. In the evaluation of total impairment we use past trends in the probability of non-fulfillment, the reimbursement period, and the amount of incurred loss, which is revised for the Board of Directors' evaluation as to whether the actual losses due to current economic and credit conditions could be higher or lower than the losses foreseen in past trends.

The Group assesses the evidence of impairment for each important loan individually.

An impairment loss related to a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the expected future cash flows, discounted at an originally effective interest rate. The loss is recognized in the income statement.

IMPAIRMENT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

Impairment loss of available-for-sale investment securities is recognized so that the potential accumulated loss, previously recognized in the comprehensive income of the period and included in the fair value reserve, is transferred into profit or loss. Any subsequent increase in the fair value of an impaired available-for-sale equity security is recognized in the comprehensive income for the period or in the fair value reserve.

NON-FINANCIAL ASSETS

At each reporting date, the Group review the carrying value of its important non-financial assets to determine whether there is an indication of impairments. If any such indication exists, the asset's recoverable value is estimated.

The recoverable value of an asset or cash generating unit is the greater of their value in use or fair value, less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of cash and the risks specific to the asset. In order to test the impairment, the assets which cannot be tested individually are joined into the smallest possible group of assets, which create cash flows from further use and which are largely independent of the inflow of other assets or groups of assets (cash-generating unit).

The impairment of an asset or cash-generating unit is recognized if their carrying amount exceeds their recoverable value. The impairment is stated in the income statement.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at the end of the reporting period if any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to such extent that the asset's carrying amount does not exceed the carrying amount that would have been determined after deducting the depreciation write-off, if no impairment loss had been recognized for the asset in previous years.

At least once a year, namely on the date of the drawing up of the financial statements, the Group evaluates the evidence on the impairment of inventories. The impairment of inventories is assessed for each individual type of inventory. Individual types of inventories are allocated to groups of inventories with similar characteristics on the basis of the time component of changes in inventories. The estimate of impairment for each individual group includes an expert assessment of the possibility of further use or sale.

EQUITY

SHARE CAPITAL

The share capital of the parent company takes the form of share capital, the amount of which is defined in the Company's article of association. It is registered with the Court and paid up by owners.

CAPITAL SURPLUS

Capital surplus consist of the amounts from payments exceeding the lowest issue price per share that exceed the carrying amount upon the disposal of previously acquired own shares; the amounts on the basis of simplified decrease of share capital; and the amounts on the basis of reversal of general revaluation adjustment.

General revaluation adjustments for capital on 31 December 2002 included (according to the then applicable Slovenian Accounting Standards) a revalorization of the share capital before 2002. The adjustment due to the transition to the new Slovenian Accounting Standards was transferred to capital surplus. This amount can only be used for the increase of share capital.

LEGAL AND OTHER RESERVES

Legal and other reserves are amounts of retained earnings from previous years, which are mostly used to compensate for potential future losses. On their occurrence they are recognized by the body responsible for the preparation of the Annual Report, or by the decision of the said body.

TREASURY SHARES

If the controlling company or its subsidiaries acquire an ownership interest, the paid amount including the transaction costs less tax is deducted from the total equity as treasury shares until such shares are withdrawn, reissued or sold.

DIVIDENDS

Until approved at the General Assembly of shareholders/partners, the planned dividends are treated as retained earnings.

PROVISIONS

Provisions are recognized if the Group, due to a past event, had legal or indirect obligation which can be reliably measured, and if there is probability that settling the obligation will require an outflow of resources, enabling economic benefits.

EMPLOYEE BENEFITS

In accordance with legal regulations, the Collective Agreement and internal regulations, the Group is obliged to make payments arising from loyalty bonuses and severance pay upon retirement for which non-current provisions are formed. There are no other retirements benefits.

The provisions are formed in the amount of estimated future payments for loyalty bonuses and severance pay, discounted at the end of the financial year. The calculation is made for individual employee and includes the costs of severance pay upon retirement and the costs of all expected loyalty bonuses up to retirement. The calculation is prepared by an actuary, selected at group level, on the basis of a projected unit.

DEFERRED REVENUES

Non-current deferred revenues are deferred revenues expected to cover the estimated expenses during a period exceeding one year.

REVENUES

Sales revenues are recognized at fair value of received repayments or receivables in this matter, decreased by repayments, discounts, rebates for further sales and quantity discounts. Revenues are recognized when the buyer assumes all significant risks and benefits connected to the asset's ownership, and it is certain that compensation and related costs will be repaid or there is a possibility of returning products, and when the Group ceases to make decisions about sold products.

Finance income comprises income from interest, from the disposal of available-for-sale financial assets, positive exchange rate differences resulting from financing and investing, and profit from hedging instruments, recognized in the income statement.

EXPENSES

Expenses are recognized if a decrease in economic benefits during the reporting period is associated with a decrease in assets or an increase in debts, and if this decrease can be measured reliably. Operating expenses are recognized when the costs are no longer held in inventories, finished and unfinished products, or when goods are sold. The costs that cannot be held in inventories of finished and unfinished products are recognized as operating expenses when they appear.

Finance expenses include borrowing costs (if not capitalised), exchange rate losses resulting from financing and investing, changes in the fair value of financial assets at fair value through profit or loss,

losses from the value impairment of financial assets and losses from hedging instruments, recognized in the income statement. Borrowing costs are recognized in the income statement using the effective interest rate method.

TAXATION

Taxes comprise current income tax liabilities and deferred tax. Current income tax is recognized in the profit or loss except to the extent that refers to business combinations or items shown directly in the comprehensive income.

Current income tax liabilities are based on the taxable profit for the financial year. Taxable profit differs from net profit, reported in the income statement, because it excludes the items of income or expenses that are taxable or deductible in other years, as well as items that are never taxable or deductible. The group's current income tax liability is calculated using tax rates applicable on the reporting date.

Deferred tax is shown in total by applying the method of obligations after the statement of financial position for temporary differences, arising from tax values of assets and liabilities and their carrying amounts in financial statements. Deferred tax is calculated by using tax rates (and laws), applicable on the date of the statement of financial position, which are expected to be used when the deferred tax asset is realized or the deferred tax liability is recovered.

A deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized.

A deferred tax liability is recognized for all taxable temporary differences, unless they come from initial goodwill recognition or the initial recognition of an asset or liability in a business transaction which is not a business combination, and which does not affect the accounting or taxable profits (tax loss) during the transaction.

In 2012 there has been a change in Corporate Income Tax Act. The amendment to the Act provides progressive decrease of tax rate from 20 to 15% within 4 years. Deferred income tax is calculated by using tax rates which are expected to be used when the deferred tax asset is realized or recovered.

NET EARNINGS PER SHARE

The Group recognizes basic and diluted earnings per share for ordinary shares. Basic earnings per share are calculated by dividing profit or loss allocated to ordinary shareholders by the weighted average number of ordinary shares in the financial year, net of the average number of treasury shares. Diluted earnings per share are calculated by adjusting profit or loss allocated to ordinary shareholders and the weighted average number of ordinary shares in the financial year, net of the average number of treasury shares, for the effect of all potential ordinary shares representing convertible bonds and share options for employees.

CASH FLOW STATEMENT

The consolidated cash flow statement shows changes in the balance of cash and cash equivalents for the financial year concerned. The consolidated cash flow statement is compiled according to the indirect method.

SEGMENT REPORTING

In the Annual Report, the Group does not disclose operations by segments. Segment reporting in the Annual Report is required for companies or groups whose debt or equity securities are publicly traded, and companies or groups that are in the process of issuing equity or debt securities on a public securities market.

NOTES TO INDIVIDUAL ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

01 INTANGIBLE ASSETS

TABLE OF MOVEMENT OF INTANGIBLE ASSETS IN 2012

	Non-current property rights	Goodwill	Assets under construction	Total
Cost on 31 December 2011	3,777,745	14,849,222	1,250,071	19,877,038
Purchase of subsidiary	-	1,003,036	-	1,003,036
New additions	-	-	2,223,083	2,223,083
Transfer from assets under construction	1,894,609	-	(1,894,609)	-
Transfer from property, plant and equipment	4,505	-	-	4,505
Transfer to assets held for sale	(66,557)	-	-	(66,557)
Translation differences	(427)	-	-	(427)
Disposal of subsidiary	(183,900)	(715,211)	(19,277)	(918,388)
Cost on 31 December 2012	5,425,975	15,137,047	1,559,268	22,122,290
Accumulated amortisation on 31 December 2011	(2,119,581)	-	-	(2,119,581)
Amortisation	(501,365)	-	-	(501,365)
Transfer to assets held for sale	65,095	-	-	65,095
Disposal of subsidiary	151,805	-	-	151,805
Accumulated amortisation on 31 December 2012	(2,404,046)	-	-	(2,404,046)
Present value on 31 December 2011	1,658,164	14,849,222	1,250,071	17,757,457
Present value on 31 December 2012	3,021,929	15,137,047	1,559,268	19,718,244

Intangible assets of the Group comprise computer and similar software and licences. The largest activation in 2012 were programs for monitoring production. Major new additions include purchase of software and licences in connection with partial modernisation of information system which is expected to be activated by the end of 2013.

The useful life of intangible assets is final, except for goodwill, which has an indefinite useful life.

Goodwill is a result of the purchases of subsidiaries and represents the excess of the purchase value over the fair value of the Group's interest in the acquired identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition. See disclosure 37.

On 31 December 2012 the goodwill was tested for potential impairment and the group determined no signs of impairment. Based on the test performed, the Board of Directors assesses that on 31 December 2012 the recoverable value of investments in interests of the companies from which the goodwill arose

was higher of their purchase value at the time of business combination. Therefore impairment of goodwill which arose from business combinations is not necessary.

The recoverable value of investments which corresponds to the value of investments in use was assessed by the method of present value of the estimated cash flows. All assumptions used for calculating cash flow are based on past experience of companies' operations and reasonable expectations of future operations. The valuation model considers 5 year cash flows with discount rates from 8.52 to 9.58 per cent and yearly growth rate of the free cash flow (residual) amounting to 2.00 per cent.

On 31 December 2012 the Group's unsettled liabilities to suppliers for purchase of intangible assets amounted to EUR 225,330. Its contractual liabilities for purchase of intangible assets amounted to EUR 3,131,467. The present value intangible assets under financial lease amounted to EUR 626,049. The Group capitalized EUR 66,318 of borrowing costs, for which the interest rates were between 4.73 and 4.97 percent. The intangible assets are not pledged as security for liabilities.

The Group reviewed the value of intangible assets, and established that the carrying amount does not exceed the recoverable amount.

TABLE OF MOVEMENT OF INTANGIBLE ASSETS IN 2011

	Non-current property rights	Other	Goodwill	Assets under construction	Total
Cost on 31 December 2010	3,425,474	7,500	14,849,222	1,150,158	19,432,354
New additions	-	-	-	447,623	447,623
Transfer from assets under construction	347,710	-	-	(347,710)	-
Write-offs and disposals	(12,668)	-	-	-	(12,668)
Other changes	18,750	(7,500)	-	-	11,250
Disposal of subsidiary	(1,521)	-	-	-	(1,521)
Cost on 31 December 2011	3,777,745	-	14,849,222	1,250,071	19,877,038
Accumulated amortisation on 31 December 2010	(1,599,549)	(724)	-	-	(1,600,273)
Amortisation	(529,585)	-	-	-	(529,585)
Write-offs and disposals	12,668	-	-	-	12,668
Other changes	(4,305)	724	-	-	(3,581)
Disposal of subsidiary	1,190	-	-	-	1,190
Accumulated amortisation on 31 December 2011	(2,119,581)	-	-	-	(2,119,581)
Present value on 31 December 2010	1,825,925	6,776	14,849,222	1,150,158	17,832,081
Present value on 31 December 2011	1,658,164	-	14,849,222	1,250,071	17,757,457

02 PROPERTY, PLANT AND EQUIPMENT

TABLE OF MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT IN 2012

	Land	Buildings	Equipment	Other	Assets under construction	Total
Cost on 31 December 2011	24,310,130	254,570,620	719,828,420	22,141,564	41,231,259	1,062,081,993
Purchase of subsidiary	1,089,886	-	828,304	87,537	2,409	2,008,136
New additions	-	-	-	-	47,394,892	47,394,892
Transfer from assets under construction	57,600	6,383,828	30,856,672	2,124,688	(39,422,788)	-
Write-offs and disposals	(36,506)	(136,273)	(6,022,363)	(742,041)	-	(6,937,183)
Translation differences	37,204	(1,333)	27,936	2,321	100	66,228
Other changes	-	-	(25,189)	(71,977)	(15,930)	(113,096)
Transfer to assets held for disposal	(43,244)	(401,355)	-	(158,971)	-	(603,570)
Disposal of subsidiary	-	(118,142)	(1,353,451)	(292,041)	-	(1,763,634)
Cost on 31 December 2012	25,415,070	260,297,345	744,140,329	23,091,080	49,189,942	1,102,133,766
Accumulated depreciation on 31 December 2011	-	(167,013,483)	(505,240,510)	(17,030,941)	-	(689,284,934)
Depreciation	-	(4,566,905)	(27,992,168)	(1,565,114)	-	(34,124,187)
Write-offs and disposals	-	136,273	5,957,120	616,138	-	6,709,531
Translation differences	-	382	1,086	534	-	2,002
Transfer to assets held for disposal	-	195,328	-	142,719	-	338,047
Disposal of subsidiary	-	35,814	158,794	117,990	-	312,598
Accumulated depreciation on 31 December 2012	-	(171,212,591)	(527,115,678)	(17,718,674)	-	(716,046,943)
Present value on 31 December 2011	24,310,130	87,557,137	214,587,910	5,110,623	41,231,259	372,797,059
Present value on 31 December 2012	25,415,070	89,084,754	217,024,651	5,372,406	49,189,942	386,086,823

Major new additions and finished investments in property, plant and equipment include:

- construction of energetic devices for new rolling mill,
- construction of quarto plates' transportation system,
- arrangement of storage space for quarto plates,
- completion of device for ESR III,
- construction of transformer substation for ESR III,
- purchase of stripping machine, ultrasonic device, dust extraction device,
- construction of hardening bath,
- renovation of forging machine,
- purchase of part of the line for steel bars processing,
- completion of laser welded flux wire mill,
- purchase and renovation of building and land.

Assets under construction also include unfinished construction of a new rolling mill for rolling plates, unfinished investment in expansion of production program for quarto plates and the running upgrades of existing components of production capacities.

Write-offs and disposals of property, plant and equipment mostly refer to the sales and write-offs of equipment connected with the renovation of basic production capacities and write-offs of unusable and out-dated equipment.

Other changes refer to the transfer of assets to intangible assets and to reversal of incorrectly recognized property, plant and equipment.

Property, plant and equipment, whose present value on 31 December 2012 amounts to EUR 238,037,700, are pledged as security for liabilities. On 31 December 2012 the Group's unsettled liabilities to suppliers for purchase of property, plant and equipment amounted to EUR 12,040,209. Its contractual liabilities for purchase of property, plant and equipment amounted to EUR 27,608,076. The present value of property, plant and equipment under finance lease is EUR 19,034,982. The Group capitalized EUR 1,561,762 of borrowing costs, for which the interest rates were between 0.60 and 4.33 percent.

The Group reviewed the value of property, plant and equipment, and established that the carrying amount does not exceed the recoverable amount.

TABLE OF MOVEMENT OF PROPERTY, PLANT AND EQUIPMENT IN 2011

	Land	Buildings	Equipment	Other	Assets under construction	Total
Cost on 31 December 2010	23,219,586	252,778,177	707,503,158	20,820,671	13,527,075	1,017,848,667
New additions	-	-	-	-	54,806,826	54,806,826
Transfer from assets under construction	1,262,411	3,272,199	19,872,923	2,694,325	(27,101,858)	-
Write-offs and disposals	(155,643)	(1,469,810)	(7,339,646)	(1,363,595)	-	(10,328,694)
Translation differences	(16,224)	(9,446)	(11,705)	913	(784)	(37,246)
Other changes	-	(500)	(48,310)	(10,750)	-	(59,560)
Disposal of subsidiary	-	-	(148,000)	-	-	(148,000)
Cost on 31 December 2011	24,310,130	254,570,620	719,828,420	22,141,564	41,231,259	1,062,081,993
Accumulated depreciation on 31 December 2010	-	(163,595,253)	(487,578,070)	(16,278,259)	-	(667,451,582)
Depreciation	-	(4,854,013)	(24,816,100)	(1,829,320)	-	(31,499,433)
Write-offs and disposals	-	1,434,562	7,135,175	1,074,015	-	9,643,752
Translation differences	-	1,199	3,605	(938)	-	3,866
Other changes	-	22	4,815	3,561	-	8,398
Disposal of subsidiary	-	-	10,065	-	-	10,065
Accumulated depreciation on 31 December 2011	-	(167,013,483)	(505,240,510)	(17,030,941)	-	(689,284,934)
Present value on 31 December 2010	23,219,586	89,182,924	219,925,088	4,542,412	13,527,075	350,397,085
Present value on 31 December 2011	24,310,130	87,557,137	214,587,910	5,110,623	41,231,259	372,797,059

03 INVESTMENT PROPERTY

TABLE OF MOVEMENT OF INVESTMENT PROPERTY IN 2012 AND 2011

	2012	2011
Cost on 1 January	346,976	1,332,988
Disposals	-	(986,012)
Cost on 31 December	346,976	346,976
Accumulated depreciation on 1 January	(263,348)	(1,048,464)
Depreciation	(3,631)	(9,793)
Disposals	-	794,909
Accumulated depreciation on 31 December	(266,979)	(263,348)
Present value on 1 January	83,628	284,524
Present value on 31 December	79,997	83,628

In 2012 the Group generated EUR 3,631 of expenses and EUR 5,874 of income on investment properties.

Investment properties items are:

- the Lubricant Storage Facility, the Input Storage Facility and the Narrow-gauge Truck Workshop in Jesenice covering in total 1,844 m²,
- apartment at Milčinskega ulica 8 in Celje, covering 42.41 m²,
- apartment at Milčinskega ulica 8 in Celje, covering 44.80 m²,
- apartment at Zoisova ulica 3 in Celje, covering 48.15 m².

The investment property is not pledged as security for liabilities.

The carrying amount of investment property does not exceed its realizable value.

04 INVESTMENTS IN ASSOCIATES

	31 Dec. 2012	31 Dec. 2011
Jesenice Development Centre, Cesta Franca Prešerna 61, Jesenice	630,835	301,260
Investments in Associates	630,835	301,260

	Activity	% of voting rights	Value of assets 31 Dec. 2012	Value of equity 31 Dec. 2012	Revenues 2012	Net profit 2012
Jesenice Development Centre	development	24.95	7,137,091	2,528,109	2,069,302	1,320,943

In 2012, in conformity with the equity method, Group attributed a corresponding share of 2012 profit to its investments, which amounted to EUR 329.575.

Associate's principal activity is development of new materials and raw materials. The company is not obliged to be audited.

05 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 Dec. 2012	31 Dec. 2011
Available-for-sale financial assets – at cost	288,253	367,361
Available-for-sale financial assets – at fair value	451,251	284,051
Available-for-Sale Financial Assets	739,504	651,412

Available-for-sale financial assets, carried at cost, refer to shares and interests in companies that are not traded on the regulated market and whose fair value cannot be measured reliably. These assets decreased due to sale of shares in the amount of EUR 11,684 and due to transfer of shares to assets held for disposal in amount of EUR 77,926.

Available-for-sale financial assets, carried at fair value, refer to shares and interests in companies that are traded on the regulated market and whose fair value can be measured reliably. These assets increased due to revaluation at fair value in the amount of EUR 167,199 credited to the comprehensive income.

Received dividends in 2012 amounted to EUR 19,664.

06 NON-CURRENT LOANS ISSUED

	31 Dec. 2012	31 Dec. 2011
Loans issued	114,961	143,461
Non-current loans issued	114,961	143,461

Interest rates on loans issued are fixed. The loans are not secured.

TABLE OF MOVEMENT OF NON-CURRENT LOANS ISSUED

	2012	2011
Balance on 1 January	143,461	2,434,961
Current portion of non-current loans issued	(53,675)	(2,351,400)
Loans issued	30,000	8,029,900
Received payments for loans issued	(4,825)	(7,970,000)
Balance on 31 December	114,961	143,461

07 OTHER NON-CURRENT ASSETS

	31 Dec. 2012	31 Dec. 2011
Emission coupons	-	222,970
Trade and other receivables	5,851,009	6,191,310
Allowances for trade and other receivables	(2,507,375)	(2,122,667)
Other non-current assets	3,343,634	4,291,613

Non-current operating receivables consist of scholarship receivables, the non-current part of receivables from the disposal of assets, the non-current divided costs of gaining loans and the non-current part of trade receivables. On the basis of confirmed bankruptcy proceedings in the year the Group formed new allowances for non-current receivables which will be repaid in the following years. The emission coupons consumed entirely since the emission drawing rights have been used.

The disclosed value of other non-current assets does not exceed their realizable value.

08 DEFERRED TAX ASSETS AND LIABILITIES

	31 Dec. 2012	31 Dec. 2011
Deferred tax assets	11,344,678	7,656,816
Deferred tax liabilities	(129,607)	(33,448)
Deferred tax assets/liabilities, net	11,215,071	7,623,368

TABLE OF MOVEMENT OF DEFERRED TAX ASSETS/LIABILITIES IN 2012

	31 Dec. 2011	Translation differences	Changes in the income statement	Changes in the comprehensive income	Disposal of subsidiary	31 Dec. 2012
Inventories	-	-	(89,196)	-	-	(89,196)
Property, plant and equipment	(33,448)	92	(301,767)	-	-	(335,123)
Available-for-Sale Financial Assets	-	(3)	699	-	-	696
Other	-	-	294,016	-	-	294,016
Deferred tax liabilities	(33,448)	89	(96,248)	-	-	(129,607)
Other provisions	30,476	-	(737)	-	-	29,739
Unused tax losses	5,908,941	-	888,859	-	(478,829)	6,318,971
Inventories	187,695	(1,473)	(5,261)	-	-	180,961
Trade and other receivables	755,459	(27)	59,689	-	-	815,121
Employee benefits	1,489,947	-	(331,380)	-	-	1,158,567
Property, plant and equipment	(975,237)	10	768,134	-	307,736	100,643
Available-for-Sale Financial Assets	26,393	-	-	(32,734)	-	(6,341)
Other	233,142	-	2,543,358	-	(29,483)	2,747,017
Deferred tax assets	7,656,816	(1,490)	3,922,662	(32,734)	(200,576)	11,344,678

	31 Dec. 2011	Translation differences	Changes in the income statement	Changes in the comprehensive income	Disposal of subsidiary	31 Dec. 2012
Deferred tax assets/liabilities	7,623,368	(1,401)	3,826,414	(32,734)	(200,576)	11,215,071

In 2012 there has been a change in Corporate Income Tax Act. The amendment to the Act provides progressive decrease of tax rate from 20 to 15% within 4 years. Deferred tax assets do not include asset from unused tax loss of the Group's controlling company, which on 31 December 2012 amounted to EUR 70,023,423. Deferred tax asset from unused tax losses would amount to EUR 10,503,513. The parent company of the Group recognized EUR 1,000,000 of deferred tax assets, as it expects taxable profits in the future against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Unrecognized deferred tax asset from unused tax losses amounted to EUR 9,503,513.

TABLE OF MOVEMENT OF DEFERRED TAX ASSETS/LIABILITIES IN 2011

	31 Dec. 2010	Translation differences	Changes in the income statement	Changes in the comprehensive income	Disposal of subsidiary	31 Dec. 2011
Inventories	46,078	-	(46,078)	-	-	-
Property, plant and equipment	(798,367)	-	744,534	-	20,386	(33,448)
Available-for-Sale Financial Assets	(14,434)	-	-	14,434	-	-
Other	325,775	-	(325,775)	-	-	-
Deferred tax liabilities	(440,948)	-	372,681	14,434	20,386	(33,448)
Provisions for environmental rehabilitation	156,045	-	(156,045)	-	-	-
Other provisions	39,862	-	(9,386)	-	-	30,476
Unused tax losses	7,846,777	-	(1,937,836)	-	-	5,908,941
Inventories	75,537	(266)	112,424	-	-	187,695
Trade and other receivables	1,045,362	13	(289,916)	-	-	755,459
Employee benefits	1,522,808	-	(32,861)	-	-	1,489,947
Property, plant and equipment	(392,158)	(9)	(583,070)	-	-	(975,237)
Available-for-Sale Financial Assets	-	-	-	26,393	-	26,393
Other	236,017	-	(2,875)	-	-	233,142
Deferred tax assets	10,530,250	(262)	(2,899,565)	26,393	-	7,656,816
Deferred tax assets/liabilities	10,089,302	(262)	(2,526,884)	40,827	20,386	7,623,368

09 ASSETS (GROUPS) AND LIABILITIES HELD FOR DISPOSALS

	31 Dec. 2012	31 Dec. 2011
Assets held for sale	4,235,906	4,331,037
Assets held for disposal	1,434,114	-
Assets (groups) held for disposal	5,670,020	4,331,037

Under assets classified as held for sale the Group has lands and buildings (outbuildings and apartments) in Jesenice and Celje. Sales activities are constantly underway. The assets are not pledged as security for liabilities.

Group's assets held for disposal primarily consist of assets of the subsidiary Acroni Italia S. r. l. and Acroni Deutschland GmbH. Subsidiaries will be liquidated during year 2013. Liabilities connected to assets held for disposal on 31 December 2012 amounted to EUR 951,293.

The carrying amount of assets classified as held for sale does not exceed their realizable value.

31 Dec. 2012	Acroni Italia	Acroni Deutschland	Total
Property, plant and equipment	10,991	255,994	266,985
Financial receivables	-	20,175	20,175
Trade and other receivables	972,453	28,476	1,000,929
Other assets	138,400	7,625	146,025
Assets held for disposal	1,121,844	312,270	1,434,114
Employee Benefits	119,792	-	119,792
Operating liabilities	742,211	46,293	788,504
Other liabilities	20,797	22,200	42,997
Liabilities held for disposal	882,800	68,493	951,293

10 INVENTORIES

	31 Dec. 2012	31 Dec. 2011
Raw material	62,050,955	63,967,968
Work in progress	48,334,365	53,734,434
Finished products	30,494,327	32,985,861
Trade goods	14,304,694	10,822,764
Inventories	155,184,341	161,511,027

The value of inventories, pledged as security for liabilities, amounted to EUR 12,600,000 on 31 December 2012. On 31 December 2012 the Group tested inventories due to impairment. The net realizable value of inventories of finished products was lower than their accounted value, which is why group, impaired the inventories in the amount of EUR 842,669.

TABLE OF MOVEMENT OF ALLOWANCES FOR INVENTORIES

	2012	2011
Balance on 1 January	4,448,569	4,446,585
Allowance changes with influence on profit or loss	148,606	140,248
Allowance changes without influence on profit or loss	(177,409)	(139,923)
Translation differences	(3,129)	1,659
Balance on 31 December	4,416,637	4,448,569

11 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 Dec. 2012	31 Dec. 2011
Financial assets at fair value through profit or loss	430	64,375
Financial assets at fair value through profit or loss	430	64,375

Financial assets at fair value through profit or loss refer to shares in companies that are traded on the regulated market of securities. These assets decreased due to revaluation at fair value in the amount of EUR 2,983 charged to the profit or loss.

During the year the Group secured the supply of certain key raw materials in dollars with derivative financial instruments. This generated EUR 46,930 of loss.

TABLE OF MOVEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012	2011
Balance on 1 January	64,375	72,494
Revaluation at fair value	49,913	(166,291)
Sales	(6,272,200)	(22,441,499)
Purchases	6,165,129	22,599,671
Disposal of subsidiary	(6,787)	-
Balance on 31 December	430	64,375

12 CURRENT LOANS ISSUED

	31 Dec. 2012	31 Dec. 2011
Loans issued	6,139,106	10,199,937
Allowances for loans issued	(5,867)	(471,455)
Current loans issued	6,133,239	9,728,482

The interest rates for loans issued were between 1.84 and 8.00%. Under loans issued and deposits the Group discloses EUR 4,507,541 of loans issued to other related parties. Loans issued are secured with bills.

In 2012 the Group wrote-off a loan issued and a formed allowance totalling EUR 471,455 due to completed bankruptcy proceedings against a debtor.

TABLE OF MOVEMENT OF CURRENT LOANS ISSUED

	2012	2011
Balance on 1 January	9,728,482	10,569,867
Purchase of subsidiary	1,702	-
Current portion of non-current loans issued	53,675	2,351,400
Loans issued	14,370,052	3,987,087
Repayments of loans issued	(19,544,695)	(7,455,872)
Translation differences	64	-
Transfer to assets held for disposal	(20,175)	-
Other	1,544,134	276,000
Balance on 31 December	6,133,239	9,728,482

13 CURRENT TRADE AND OTHER RECEIVABLES

	31 Dec. 2012	31 Dec. 2011
Trade receivables	135,107,074	141,242,085
Allowances for trade receivables	(3,408,724)	(3,028,469)
Interest receivables	184,754	71,308
VAT receivables	3,875,637	7,766,235
Issued advance payments and cautions	7,039,463	7,663,767
Other trade and other receivables	2,871,485	2,389,989
Current trade and other receivables	145,669,689	156,104,915

The majority of the Group's receivables from customers are insured against commercial risks with the insurance company SID-PKZ, d. d., Ljubljana. The value of receivables from customers, pledged as security for liabilities, amounted to EUR 58,851,740 on 31 December 2012.

The allowances for receivables from customers increased due to confirmed compulsory settlement and bankruptcy proceedings.

The disclosed value of operating receivables does not exceed their realizable value.

TABLE OF MOVEMENT OF ALLOWANCES FOR RECEIVABLES FROM CUSTOMERS

	2012	2011
Balance on 1 January	3,028,469	5,890,597
Purchase of subsidiaries	-	-
Allowance changes with influence on profit or loss	612,340	1,054,537
Allowance changes without influence on profit or loss	(224,526)	(3,828,764)
Translation differences	19	111
Disposal of subsidiary	(7,578)	(88,012)
Balance on 31 December	3,408,724	3,028,469

14 INCOME TAX ASSETS/LIABILITIES

	31 Dec. 2012	31 Dec. 2011
Income tax assets	841,167	190,640
Income tax liabilities	(96,452)	(889,118)
Income tax assets/liabilities, net	744,715	(698,478)

15 CASH AND CASH EQUIVALENTS

	31 Dec. 2012	31 Dec. 2011
Cash in national currency	22,931,609	22,486,064
Cash in foreign currency	3,767,600	1,613,528
Restricted cash	222,906	745,142
Cash and cash equivalents	26,922,115	24,844,734

Cash in national and foreign currency includes cash in hand and balances on bank accounts which are EUR 14,207,009 on 31 December 2012. Deposits in the amount of EUR 12,492,200 are in national currency and have a maturity of up to three months. The interest rates for deposits with maturity of up to three months are fixed.

Restricted cash represents assets on custody account intended for payments of liabilities for purchase of a subsidiary.

16 OTHER CURRENT ASSETS

	31 Dec. 2012	31 Dec. 2011
Deferred expenses	1,068,347	1,343,377
Accrued revenue	25,988	130,820
Other current assets	1,094,335	1,474,197

Current deferred expenses refer to advance payments of costs, which in 2013 will debit against profit or loss.

17 EQUITY

	31 Dec. 2012	31 Dec. 2011
Capital and reserves attributed to the owners of the parent company	323,873,862	327,450,311
Share capital	145,266,066	145,266,066
Capital Surplus	11,461,177	11,461,177
Revenue reserves	(946,217)	(1,493,356)
Fair value reserves	28,890	(105,572)
Translation differences	(36,726)	(50,648)
Retained earnings	168,100,672	172,372,644
Non-controlling interest	4,129,698	3,846,891
Equity	328,003,560	331,297,202

The share capital of the parent company is recognized in the amount of EUR 145,266,066 and is distributed among 994,616 shares. The face value of share is EUR 146,05. The number of shares did not change in 2012.

OWNERSHIP STRUCTURE OF THE PARENT COMPANY

Shareholder	Nr. of shares 31 Dec. 2012	Nr. of shares 31 Dec. 2011
DILON, d. o. o., Gerbičeva ulica 98, Ljubljana	550,589	550,589
Republic of Slovenia, Gregorčičeva ulica 20, Ljubljana	248,655	248,655
OAO KOKS, 1ST STAKHNOVSKAYA STR.6, Kemerovo, Russian Federation	167,762	167,762
D. P. R., d. d., Koroška cesta 14, Ravne na Koroškem	11,468	11,468
Stanovanjsko podjetje, d. o. o., Ob Suhi 19, Ravne na Koroškem	8,205	8,205
SIJ, d. d., Gerbičeva ulica 98, Ljubljana	7,917	7,917
HIDRIA ROTOMATIKA, d. o. o., Spodnja Kanomlja 23, Spodnja Idrija	10	10

Shareholder	Nr. of shares 31 Dec. 2012	Nr. of shares 31 Dec. 2011
UNIOR, d. d., Kovaška cesta 10, Zreče	10	10
Total	994,616	994,616

CAPITAL SURPLUS

Capital surplus in the amount of EUR 11,461,177 were formed during the simplified decrease of the controlling company's share capital.

REVENUE RESERVES

	31 Dec. 2012	31 Dec. 2011
Legal reserves	1,308,510	761,371
Treasury shares	(2,254,727)	(2,254,727)
Revenue reserves	(946,217)	(1,493,356)

Legal reserves increased by 5.00 percent of net profit of the Group's controlling company according to the Companies Act.

The parent company acquired treasury shares on the basis of the Act Regulating the Incurrence and Settlement of Liabilities of Slovenske železarne as regards the Restructuring Programme (Official Gazette of the RS, nr. 111/2001) and in line with the Privatization of Slovenske železarne Act (Official Gazette of the RS, nr. 13/1998). Treasury shares were acquired by exchanging interests in subsidiaries for shares of the parent company, owned by authorized companies.

The shares were acquired ex lege and not in line with the Companies Act, which is why the controlling company did not establish a treasury shares fund. Shares are recognized at cost.

FAIR VALUE RESERVES

	31 Dec. 2012	31 Dec. 2011
Fair value reserves due to available-for-sale financial assets	35,232	(131,966)
Deferred tax liabilities	(6,342)	26,394
Fair value reserves	28,890	(105,572)

DISTRIBUTABLE PROFIT

	31 Dec. 2012	31 Dec. 2011
Balance on 1 January	172,372,644	155,044,301
Net profit/loss for the period	628,053	17,344,572
Formation of legal reserves	(547,139)	(11,010)

	31 Dec. 2012	31 Dec. 2011
Other changes	(4,352,886)	(5,219)
Balance on 31 December	168,100,672	172,372,644

Other changes refer to the loss created from additional purchase of non-controlling interest, which is directly recognized in equity as a decrease in capital and reserves attributed to the owners of the parent company.

The Group is not a legal entity nor does it hold the decision-making rights. Retained earnings and net profit for the financial year of subsidiaries, included in the consolidated financial statements, are divided on the level of respective subsidiaries.

18 EMPLOYEE BENEFITS

	31 Dec. 2012	31 Dec. 2011
Provisions for severance pay	8,602,942	9,177,743
Provisions for loyalty bonuses	1,785,423	1,705,666
Provisions for post-employment benefits	112,145	431,304
Employee benefits	10,500,510	11,314,713

TABLE OF MOVEMENT OF EMPLOYEE BENEFITS IN 2012

	31 Dec. 2011	Formation	Reversal	Utilization	Translation differences	Disposal of subsidiary	31 Dec. 2012
Provisions for severance pay	9,177,743	128,047	(453,605)	-	(9)	(249,234)	8,602,942
Provisions for loyalty bonuses	1,705,666	143,458	(32,801)	-	(9)	(30,891)	1,785,423
Provisions for post-employment benefits	431,304	71,941	-	(4,481)	-	(386,619)	112,145
Employee benefits	11,314,713	343,446	(486,406)	(4,481)	(18)	(666,744)	10,500,510

Provisions were formed for the estimated payments of loyalty bonuses, severance pay and post-employment benefits as the consequence of long-term employment on the date of the statement of financial position, discounted to the present value. The estimated provisions were formed for expected payments.

Actuarial calculations have been made on the basis of actuarial model and assumptions, derived from the tables of death, staff turnover, growth of salaries in the country of the Group's company and in the individual Group's companies, and on the basis of a yield curve, which represents the relationship between market yields of government bonds in the euro area and the time remaining to maturity of

liabilities, discounted at an interest rate of 0.014 do 2.509 percent, depending on the age structure of employees or maturity.

TABLE OF MOVEMENT OF EMPLOYEE BENEFITS IN 2011

	31. Dec. 2010	Formation	Reversal	Utilization	Translation differences	31. Dec. 2011
Provisions for severance pay	8,858,306	605,862	(153,651)	(132,760)	(14)	9,177,743
Provisions for loyalty bonuses	2,063,993	59,262	(417,558)	-	(31)	1,705,666
Provisions for post-employment benefits	442,490	6,048	(12,753)	(4,481)	-	431,304
Employee benefits	11,364,789	671,172	(583,962)	(137,241)	(45)	11,314,713

19 OTHER PROVISIONS

	31 Dec. 2012	31 Dec. 2011
Provisions for environmental rehabilitation	500,000	1,171,680
Provisions for law suits	969,673	1,050,569
Provisions for other	396,515	314,712
Other provisions	1,866,188	2,536,961

TABLE OF MOVEMENT OF OTHER PROVISIONS IN 2012

	31 Dec. 2011	Formation	Reversal and utilization	31 Dec. 2012
Provisions for environmental rehabilitation	1,171,680	28,093	(699,773)	500,000
Provisions for law suits	1,050,569	7,000	(87,896)	969,673
Provisions for other	314,712	91,757	(9,954)	396,515
Other provisions	2,536,961	126,850	(797,623)	1,866,188

In compliance with the IPPC directives the Group formed a provision for environmental rehabilitation, namely a provision for the stabilization of the Sava river bank. In 2012 the provision was reversed. In accordance with decision of Slovenian Environment Agency the company is not obliged to carry out the rehabilitation.

Provisions for other refer to provisions for complaints about products in the warranty period.

130 TABLE OF MOVEMENT OF OTHER PROVISIONS IN 2011

	31 Dec. 2010	Formation	Reversal and utilization	31 Dec. 2011
Provisions for environmental rehabilitation	3,118,111	107,366	(2,053,797)	1,171,680
Provisions for law suits	960,610	95,000	(5,041)	1,050,569
Provisions for other	408,569	102,000	(195,857)	314,712
Other provisions	4,487,290	304,366	(2,254,695)	2,536,961

20 NON-CURRENT DEFERRED REVENUES

	31 Dec. 2012	31 Dec. 2011
Assigned contributions	682,590	581,954
Other non-current deferred revenues	-	40,235
Deferred revenues	682,590	622,189

TABLE OF MOVEMENT OF NON-CURRENT DEFERRED REVENUES IN 2012

	31 Dec. 2011	Formation	Reversal and utilization	31 Dec. 2012
Assigned contributions	581,954	1,328,860	(1,228,224)	682,590
Other non-current deferred revenues	40,235	318,003	(358,238)	-
Deferred revenues	622,189	1,646,863	(1,586,462)	682,590

TABLE OF MOVEMENT OF NON-CURRENT DEFERRED REVENUES IN 2011

	31 Dec. 2010	Formation	Reversal and utilization	31 Dec. 2011
Assigned contributions	451,866	1,370,039	(1,239,951)	581,954
Other non-current deferred revenues	84,626	609,857	(654,248)	40,235
Deferred revenues	536,492	1,979,896	(1,894,199)	622,189

21 NON-CURRENT BORROWINGS

	31 Dec. 2012	31 Dec. 2011
Borrowings	135,873,076	97,535,025
Non-current borrowings	135,873,076	97,535,025

Non-current borrowings include loans from domestic and foreign banks. Real estate, movable property, receivables and inventories were pledged for borrowings in the amount of EUR 135,490,276. Other non-

current borrowings are not secured. The interest rate for majority of borrowings is flexible and based on EURIBOR.

TABLE OF MOVEMENT OF NON-CURRENT BORROWINGS

	2012	2011
Balance on 1 January	97,535,025	120,504,818
Borrowings	62,117,710	29,574,240
Current portion of non-current borrowings	(23,739,217)	(52,646,600)
Exchange rate differences	645	42,854
Translation differences	(743)	(9,384)
Other	(40,344)	69,097
Balance on 31 December	135,873,076	97,535,025

22 OTHER NON-CURRENT FINANCIAL LIABILITIES

	31 Dec. 2012	31 Dec. 2011
Liabilities arising from finance lease	6,288,123	8,655,026
Other non-current financial liabilities	6,288,123	8,655,026

The interest rate for liabilities arising from finance lease is flexible and based on EURIBOR.

TABLE OF MOVEMENT OF NON-CURRENT LIABILITIES ARISING FROM FINANCE LEASE

	2012	2011
Balance on 1 January	8,655,026	12,085,011
Liabilities arising from finance lease	1,894,629	325,313
Repayment of liabilities arising from finance lease	(15,506)	-
Current portion of non-current liabilities arising from finance lease	(4,163,531)	(3,736,126)
Exchange rate differences	319	3,900
Translation differences	47	(2,708)
Other	-	(20,364)
Disposal of subsidiary	(82,861)	-
Balance on 31 December	6,288,123	8,655,026

MINIMUM PAYMENTS OF LIABILITIES ARISING FROM FINANCE LEASE IN 2012

	Due for payment in 1 year	Due for payment in 1-5 years	Due for payment after 5 years
Minimum lease payments	4,300,908	5,838,979	904,253
Future finance costs	(340,343)	(382,209)	(72,900)
Present value of minimum lease payments	3,960,565	5,456,770	831,353

MINIMUM PAYMENTS OF LIABILITIES ARISING FROM FINANCE LEASE IN 2011

	Due for payment in 1 year	Due for payment in 1-5 years	Due for payment after 5 years
Minimum lease payments	4,281,885	8,153,228	1,224,695
Future finance costs	(475,973)	(632,577)	(90,320)
Present value of minimum lease payments	3,805,912	7,520,651	1,134,375

23 NON-CURRENT OPERATING LIABILITIES

	31 Dec. 2012	31 Dec. 2011
Emission coupons	-	92,904
Other liabilities	167,665	33,778
Non-current operating liabilities	167,665	126,682

24 CURRENT BORROWINGS

	31 Dec. 2012	31 Dec. 2011
Borrowings	106,397,530	132,756,583
Transaction account overdrafts	962,364	1,500,868
Current borrowings	107,359,894	134,257,451

Current borrowings include loans from domestic and foreign banks. Real estate, movable property, receivables and inventories were pledged for current and current portion of non-current borrowings in the amount of EUR 73,718,798. Other current borrowings are not secured. The interest rate for majority of borrowings is flexible and based on EURIBOR.

TABLE OF MOVEMENT OF CURRENT BORROWINGS

	2012	2011
Balance on 1 January	134,257,451	122,024,582
Purchase of subsidiaries	204,486	-
Current portion of non-current borrowings	23,739,217	52,646,600
Borrowings	239,108,533	174,702,133
Repayments for borrowings	(288,743,629)	(215,186,000)
Change in transaction account overdrafts	(538,504)	22,179
Exchange rate differences	(498)	(29,643)
Translation differences	(38,481)	66,272
Disposal of subsidiary	(643,911)	-
Other	15,230	11,328
Balance on 31 December	107,359,894	134,257,451

25 OTHER CURRENT FINANCIAL LIABILITIES

	31 Dec. 2012	31 Dec. 2011
Interest liabilities	782,035	969,381
Liabilities arising from finance lease	3,960,565	3,805,911
Other current financial liabilities	4,742,600	4,775,292

The interest rate for liabilities arising from finance lease is flexible and based on EURIBOR.

The lowest sum of future leases, due for payment in the next financial year, amounts to EUR 4,300,908 on 31 December 2012, at which the net present value of leases amount to EUR 3,960,565.

TABLE OF MOVEMENT OF CURRENT LIABILITIES ARISING FROM FINANCE LEASE

	2012	2011
Balance on 1 January	3,805,911	4,084,163
Liabilities arising from finance lease	22,993	24,881
Repayment of liabilities arising from finance lease	(3,900,652)	(4,047,651)
Current portion of non-current liabilities arising from finance lease	4,163,531	3,736,125
Exchange rate differences	629	2,500
Translation differences	(266)	(1,609)
Disposal of subsidiary	(82,739)	-
Other	(48,842)	7,502
Balance on 31 December	3,960,565	3,805,911

26 CURRENT OPERATING LIABILITIES

	31 Dec. 2012	31 Dec. 2011
Liabilities to suppliers	152,181,020	146,829,295
Liabilities to employees	4,107,176	4,256,959
Received advance payments	997,667	1,447,897
Tax liabilities	3,296,033	3,696,939
Other operating liabilities	2,947,222	8,775,309
Current operating liabilities	163,529,118	165,006,399

Liabilities to employees include liabilities for net salaries and compensations for December salaries paid in January 2013. Other operating liabilities include liabilities for contract work and work under author's contracts, VAT liabilities, liabilities for taxes and employer's contributions arising from December salaries.

27 OTHER CURRENT LIABILITIES

	31 Dec. 2012	31 Dec. 2011
Accrued customer fees	900,429	817,872
Accrued audit expenses	164,347	240,431
Accrued expenses for unused annual leave	1,054,511	1,346,321
Accrued expenses for law suits	24,753	62,897
Accrued expenses for loyalty bonuses	100,000	122,651
Current portion of non-current provisions (Sava river bank)	-	202,928
Other liabilities	1,078,802	2,089,509
Deferred revenue	60,494	-
Other current liabilities	3,383,336	4,882,609

The provision for the stabilization of the Sava river bank was reversed. In accordance with decision of Slovenian Environment Agency the company is not obliged to carry out the rehabilitation.

28 REVENUES

	2012	2011
Revenues in Slovenia	106,635,100	112,691,650
Revenues in foreign countries	625,914,867	652,286,186
- Germany	158,886,298	190,224,656
- Italy	183,124,005	191,250,623
- Austria	24,600,026	32,421,955
- USA	44,013,356	40,195,941
- Other countries	215,291,182	198,193,011
Revenues	732,549,967	764,977,836

29 OPERATING EXPENSES

	2012	2011
Costs of goods, materials and services	593,689,915	607,778,302
Labour costs	93,586,341	94,898,881
- wages and salaries	67,936,333	68,958,367
- social security costs	13,845,733	14,070,996
- other labour costs	11,804,275	11,869,518
Depreciation and amortisation costs	34,625,552	32,029,018
Other costs	6,888,770	5,922,588
Change in the value of inventories	2,831,928	(3,352,209)
Operating expenses	731,622,506	737,276,580

REVIEW OF COSTS BY TYPE IN 2012

	Cost of sales	Distribution costs	General and administrative expenses	Total
Costs of goods, materials and services	538,031,499	37,108,218	18,550,198	593,689,915
Labour costs	57,692,291	7,755,194	28,138,856	93,586,341
Depreciation and amortisation costs	30,790,052	375,488	3,460,012	34,625,552
Other costs	3,880,273	60,621	2,947,876	6,888,770
Change in the value of inventories	2,831,928	-	-	2,831,928
Operating expenses	633,226,043	45,299,521	53,096,942	731,622,506

136 REVIEW OF COSTS BY TYPE IN 2011

	Cost of sales	Distribution costs	General and administrative expenses	Total
Costs of goods, materials and services	548,729,723	42,904,097	16,144,482	607,778,302
Labour costs	58,944,767	7,648,387	28,305,727	94,898,881
Depreciation and amortisation costs	27,982,752	392,662	3,653,604	32,029,018
Other costs	2,878,810	72,107	2,971,671	5,922,588
Change in the value of inventories	(3,352,209)	-	-	(3,352,209)
Operating expenses	635,183,843	51,017,253	51,075,484	737,276,580

The auditing costs for the 2012 Annual Report amounted to EUR 239,850.

AVERAGE NUMBER OF EMPLOYEES BY CATEGORY ACCORDING TO LEVEL OF EDUCATION

	2012	2011
Primary school	612	675
2.5-year vocational school	404	410
3- or 4-year vocational school	939	929
Secondary vocational or general school	780	820
Higher education I. level	289	252
Higher education II. level	186	196
Master's Degree, Ph.D.	37	39
Total	3,247	3,321

30 OTHER OPERATING INCOME

	2012	2011
Reversal of provisions	958,857	3,095,407
Profit from sale of property, plant and equipment	-	328,287
Profit from sale of investment property	-	422,447
Profit from sale of assets classified as held for sale	51,737	227,885
Revenues from received subsidies	1,586,463	1,894,199
Capitalized own products	3,915,785	627,595
Received compensations	1,275,039	678,270
Contractual penalties	-	1,411,433
Profit from selling emission coupons	136,362	191,487
Other operating income	435,064	285,879
Other operating income	8,359,307	9,162,889

31 OTHER OPERATING EXPENSES

	2012	2011
Allowances for receivables	1,062,340	1,976,801
Allowances for inventories	148,606	140,248
Impairment of inventories	842,669	1,960,395
Loss from sale of intangible assets	35,349	-
Expenses for donations and sponsorships	351,848	409,153
Other operating expenses	151,564	212,998
Other operating expenses	2,592,376	4,699,595

32 FINANCE INCOME

	2012	2011
Profit from sale and revaluation of available-for-sale financial assets	178,229	-
Positive exchange rate differences from financing activities	20,409	118,924
Positive exchange rate differences from investing activities	85,150	29,290
Interest income	660,569	1,302,259
Other finance income	24,282	8,886
Finance income	968,639	1,459,359

33 FINANCE EXPENSES

	2012	2011
Loss from sale and revaluation of available-for-sale financial assets	-	365,292
Negative exchange rate differences from financing activities	173,458	264,839
Negative exchange rate differences from investing activities	21,027	94,847
Interest expenses	9,862,306	11,253,683
Other finance expenses	35,595	115,764
Finance expenses	10,092,386	12,094,425

34 TAXES

	2012	2011
Income tax	(987,185)	(1,676,189)
Deferred tax	3,826,414	(2,526,884)
Taxes	2,839,229	(4,203,073)

	2012	2011
Profit/loss before taxation	(2,099,780)	21,531,344
Tax at applicable tax rate	(377,960)	4,684,540
Tax effects from:		
- non-taxable income	(140,941)	(127,550)
- tax non-deductible expenses	507,925	451,170
- tax relief	(3,656,649)	(805,087)
- change in tax rates	828,396	-
Taxes	(2,839,229)	4,203,073

Tax relief of the Group comprises tax relief realized from charging of corporate tax, and unused tax reliefs for which deferred tax assets were recorded. Unused tax reliefs the Group can realize in the next 5 years.

35 NET EARNINGS PER SHARE

Net earnings per share are calculated by dividing net profit or loss of the financial year, allocated to shareholders, by the weighted average number of shares, traded during the year, net of the number of treasury shares.

	2012	2011
Earnings of the owners of the controlling company	628,053	17,344,572
Weighted number of issued ordinary shares	986,699	986,699
Basic and diluted earnings per share	0.64	17.58

36 CONTINGENT ASSETS AND LIABILITIES

Contingent assets amounted to EUR 2,033,576 on 31 December 2012 and refer to received guarantees for the elimination of errors in the warranty period. The Group expects no inflows from received guarantees.

Contingent liabilities amounted to EUR 6,847,900 on 31 December 2012. They include issued securities for borrowings in the value of EUR 1,543,374, and customs bond and guarantees for good work performance in the value of EUR 5,304,526. The Group expects no outflows from the issued securities and guarantees.

37 BUSINESS COMBINATIONS

On 31 August 2012 company Odpad, d. o. o., Pivka bought a 70% share of Metal – Eko Sistem, d. o. o. In 2012 the Group considered temporary fair values of acquired assets as fair for the initial accounting for the business combination of purchasing the company, in accordance with the first clause of IFRS 3.45.

The statement of financial position of the company Metal – Eko Sistem, d. o. o., on the date, when the Group acquired the controlling interest, is given below:

	Fair value	Temporary fair value
ASSETS		
Cash and cash equivalents	21,314	21,314
Property, plant and equipment, intangible assets	2,008,137	2,008,137
Inventories	237,033	237,033
Trade and other receivables	221,107	221,107
Other assets	1,702	1,702
EQUITY AND LIABILITIES		
Borrowings	204,486	204,486
Other liabilities	241,155	241,155
NET ASSETS	2,043,652	2,043,652
Non-controlling interest (30%)	613,096	
ACQUIRED NET ASSETS	1,430,556	
Purchase price	2,433,592	
Carrying amount of acquired net assets	1,430,556	
GOODWILL	1,003,036	

RELATED PARTIES

Related parties comprise the parent company, subsidiaries, associated companies, other related parties and the management of the company. Other related parties include the companies of the parent company's Group, the parent companies of the parent company and companies included in their groups.

RELATED PARTY TRANSACTIONS EXCLUDED FROM CONSOLIDATED FINANCIAL STATEMENTS

	2012	2011
Revenues/expenses	156,119,779	145,184,288

	31 Dec. 2012	31 Dec. 2011
Operating receivables/liabilities	57,284,505	50,541,220
Loans issued/borrowings	31,501,315	38,345,515
Financial investments in subsidiaries	169,498,115	162,379,893

TRANSACTIONS WITH THE PARENT COMPANY

	2012	2011
Revenues	133,086	16,992

	31 Dec. 2012	31 Dec. 2011
Receivables	4,592,229	100,920

TRANSACTIONS WITH OTHER RELATED PARTIES

	2012	2011
Revenues	40,574	540,000

	31 Dec. 2012	31 Dec. 2011
Receivables	-	6,000,000

TRANSACTIONS WITH MANAGEMENT

Total amount of receipts on the basis of the business management contract, received in the financial year for the performance of functions or tasks in the company by Members of the Board of Directors, other workers, employed on contracts for which the tariff part of collective agreement does not apply, and Members of the Supervisory Board.

	2012	2011
Management and employees with service contract	15,027,042	13,996,411
Members of the Supervisory Board	40,556	29,136

The receipts include gross salaries, paid reimbursements related to work in accordance with the regulation (daily allowance, mileage, overnight accommodation etc.), and bonuses.

The Group did not grant any loans, issue any guarantees nor make any advance payments to the management of the Group or the Members of the Supervisory Board in 2012.

The management of the Group is represented by the management of the controlling company and management of subsidiaries.

FINANCIAL INSTRUMENTS AND RISKS

CREDIT RISK

The largest exposure on the reporting date arises from operating receivables, loans issued and deposits.

AGE STRUCTURE OF FINANCIAL ASSETS DUE BUT NOT IMPAIRED

31 Dec. 2012	Not yet due	Overdue				Total
		Up to 3 months	3 months to 1 year	From 1 year to 3 years	Over 3 years	
Trade receivables	112,316,505	16,653,566	2,288,610	429,609	10,060	131,698,350
Other trade and other receivables	13,329,110	47,018	34,928	-	-	13,411,056
Loans issued and deposits	18,740,400	-	-	-	-	18,740,400
Total	144,386,015	16,700,584	2,323,538	429,609	10,060	163,849,806

31 Dec. 2011	Not yet due	Overdue				Total
		Up to 3 months	3 months to 1 year	From 1 year to 3 years	Over 3 years	
Trade receivables	114,546,439	20,372,648	3,100,810	182,158	11,559	138,213,614
Other trade and other receivables	13,507,718	201,524	-	5,926	56,392	13,771,560
Loans issued and deposits	30,282,133	-	-	-	-	30,282,133
Total	158,336,290	20,574,172	3,100,810	188,084	67,951	182,267,307

MOVEMENT OF ALLOWANCES FOR FINANCIAL ASSETS

	Allowance on 31 Dec. 2011	Disposal of subsidiary	Formation of allowance for year	Repayment of assets subject to allowance	Other changes without influence on profit or loss	Allowance on 31 Dec. 2012
Trade receivables	3,028,469	-	731,845	(138,630)	(212,960)	3,408,724
Other trade and other receivables	2,876,847	(64,863)	572,186	(108,929)	(100,200)	3,175,041
Loans issued and deposits	471,455	-	5,867	-	(471,455)	5,867
Total	6,376,771	(64,863)	1,309,898	(247,559)	(784,615)	6,589,632

	Allowance on 31 Dec. 2010	Disposal of subsidiary	Formation of allowance for year	Repayment of assets subject to allowance	Other changes without influence on profit or loss	Allowance on 31 Dec. 2011
Trade receivables	5,890,597	(88,012)	1,564,372	(509,835)	(3,828,653)	3,028,469
Other trade and other receivables	2,172,457	-	1,380,560	(74,760)	(601,410)	2,876,847
Loans issued and deposits	471,455	-	-	-	-	471,455
Total	8,534,509	(88,012)	2,944,932	(584,595)	(4,430,063)	6,376,771

Other changes without influence on profit or loss disclose write-offs of assets for which allowance was formed, calculated exchange rate differences and calculated translation differences.

LIQUIDITY RISK

The Group is managing liquidity risk with appropriate planning of cash flow and current credit lines from banks agreed in advance, which ensures that the Group is capable of settling ant overdue liabilities at any time.

31 Dec. 2012	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years
Liabilities to suppliers	145,570,790	6,610,236	-	-
Liabilities for borrowings	48,561,216	65,123,370	142,752,559	9,391,457
Other operating and financial liabilities	8,462,675	3,711,278	5,510,306	831,352
Total	202,594,681	75,444,884	148,262,865	10,222,809

31 Dec. 2011	Up to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years
Liabilities to suppliers	140,823,041	6,006,254	-	-
Liabilities for borrowings	33,907,274	100,350,176	67,479,028	30,055,999
Other operating and financial liabilities	6,525,001	13,966,164	21,558,603	4,736,393
Total	181,255,316	120,322,594	89,037,631	34,792,392

Exposure to banks the Group assesses as moderate. The Group fully complies with the conditions stated in loan contracts in the section defining the disclosure of data, payment of interest and repaying the principal value. In 2012 the Group did not fulfill part of its liabilities for two non-current loan contracts in the total amount of EUR 1,584,491. The violation of the first contract does not automatically give the bank the right to prematurely terminate the contract, while there is a very slight probability for the assets of the second contract to be collected prematurely. The assessment is based on an independent review of the contract and on a precedent from the year before, when a violation of obligation, higher than this year, did not result in premature collection of assets. Given the reasons stated above on the date of the statement of financial position the Group does not state these non-current liabilities as current liabilities.

FOREIGN EXCHANGE RISK

The consolidated financial statements of the Group are based on the following exchange rates:

EUR/USD	1.3194
EUR/GBP	0.8161
EUR/CHF	1.2072
EUR/SEK	8.5820
EUR/HRK	7.5575

Net exposure (assets – liabilities) in foreign currencies, expressed in EUR, is:

USD	(14,815,659)
GBP	(211,070)
CHF	(36,789)
SEK	(946)
EUR	(278,512)

INTEREST RATE RISK

A change in interest rate by 100 or 200 basis points on the reporting date would result in an increase (decrease) of profit or loss by the amounts stated below. The analysis assumes that all other variables, in particular exchange rates, remain unchanged. The analysis for 2011 was prepared in the same manner:

	2012	2011
Change in profit/loss if increased by 200 bp	(3,683,613)	(4,089,438)
Change in profit/loss if increased by 100 bp	(1,866,586)	(2,045,278)
Change in profit/loss if decreased by 100 bp	1,866,586	2,045,278
Change in profit/loss if decreased by 200 bp	3,683,613	4,089,438

EQUITY MANAGEMENT

The Group monitors the status of overdue receivables on a daily basis, and prepares 3-month plans twice a month with the aim of achieving optimum debt. Larger investments are financed by non-current assets.

	2012	Debt increase by 10%	Debt decrease by 10%
Level of debt on equity	77.52	85.27	69.77
Equity	328,003,560	328,003,560	328,003,560
Financial liabilities	254,263,693	279,690,062	228,837,324

CARRYING AMOUNTS AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Type of financial instrument	31 Dec. 2012		31 Dec. 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets at fair value through profit or loss	430	430	64,375	64,375
Available-for-Sale Financial Assets	739,504	739,504	651,412	651,412
Loans issued and deposits	6,248,200	6,248,200	9,871,943	9,871,943
Trade and other receivables	149,013,323	149,013,323	160,173,558	160,173,558
Cash	26,922,115	26,922,115	24,844,734	24,844,734
Borrowings	(243,232,970)	(243,232,970)	(231,792,476)	(231,792,476)
Other financial liabilities	(11,030,723)	(11,030,723)	(13,430,318)	(13,430,318)
Operating liabilities	(163,696,783)	(163,696,782)	(165,133,081)	(165,133,081)
Total	(235,036,904)	(235,036,904)	(214,749,853)	(214,749,853)

FINANCIAL ASSETS DETERMINED AT FAIR VALUE BY HIERARCHY

	31 Dec. 2012	31 Dec. 2011
Financial assets at fair value of first level	451,681	348,426
Financial assets at fair value	451,681	348,426

EVENTS AFTER THE REPORTING DATE

After the reporting date in the SIJ Group following significant events happened:

- ❖ Acroni implemented the final phase of the most important strategic investment of recent years, the replacement of a nearly 50-year-old plate mill in the Hot Rolling Mill, which should be completely finished by the end of the first half of this year.
- ❖ At the end of February Odpad has become a 51% owner of TOPMetal, d. o. o. Laktaši from Bosnia and Herzegovina.
- ❖ The Group started the liquidation procedure for Acroni Deutschland and Acroni Italia.
- ❖ Group rescinded the contract on taking over CSM.
- ❖ Higher Court in Ljubljana affirmed to a District Court judgment and decided that SIJ, d. d., company must conclude a contract for transfer of 20% interests in subsidiaries Ravne Knives and Metal Ravne. The company SIJ requested a revision of procedure, for it doesn't agree with the decision and it's grounds.
- ❖ There were no other events after the reporting date that could influence the Group's financial statements.



sij group

AUDITOR'S REPORT

INDEPENDENT AUDITORS REPORT TO THE OWNERS OF SIJ – Slovenska industrija jekla, d.d.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the SIJ-Slovenska industrija jekla group, which comprise the statement of financial position as at 31.12.2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the SIJ-Slovenska industrija jekla group as of 31.12.2012, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

The management is also responsible for the preparation of the business report in accordance with the requirements of the Companies Act (ZGD-1). Our responsibility is to provide an assessment of whether the business report is consistent with the audited financial statements. Our procedures have been conducted in accordance with the International Standard on Auditing 720 and are limited solely to assessing of whether the business report is consistent with the audited financial statements. In our opinion, the business report is consistent with the audited financial statements.

The group did not disclose information in the annual report regarding receipts of the members of management and supervisory bodies as required under Article 294 of the Companies Act (ZGD-1).

DELOITTE REVIZIJA d.o.o.

Maruša Tratnjek
Certified auditor

Ljubljana, 15 March 2013

Yuri Sidorovich
President of the Board

Deloitte.

DELOITTE REVIZIJA D.O.O.
Ljubljana, Slovenija 3

FOR TRANSLATION PURPOSES ONLY- ORIGINAL PREVAILS